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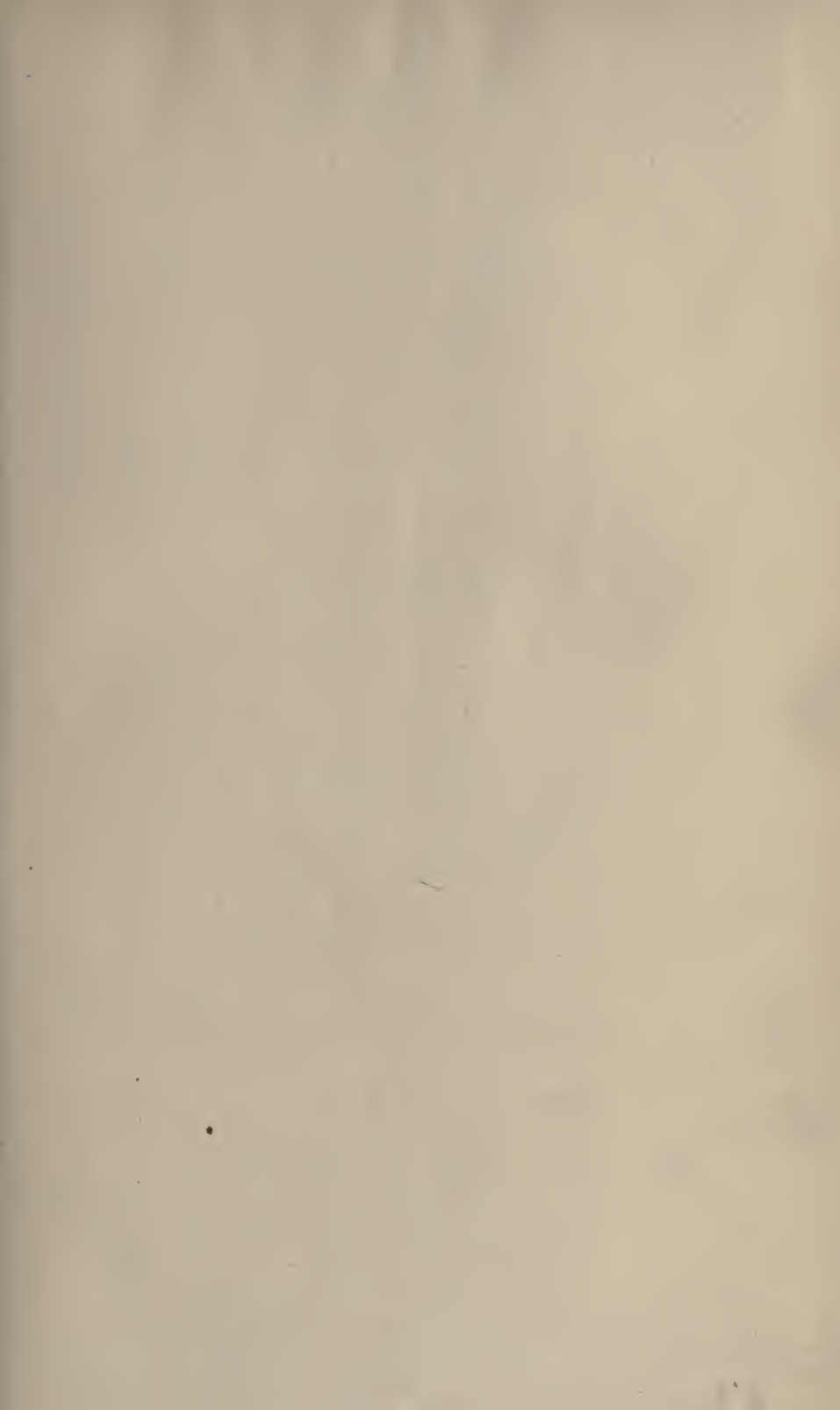








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THE  
 FINANCIAL HISTORY  
 OF THE  
 UNITED STATES,  
 [Vol. 2]  
 FROM 1789 TO 1860.

BY  
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TO THE  
HON. ABRAM S. HEWITT

*This Volume is Dedicated*

IN ACKNOWLEDGMENT OF HIS EMINENT WORTH AS A LEGISLATOR,  
ESPECIALLY ON QUESTIONS PERTAINING TO

PUBLIC ECONOMY;

AND OF HIS SYMPATHETIC AND INTELLIGENT INTEREST IN  
THE WELL-BEING OF

THE WORKING CLASSES.



## PREFATORY NOTE.

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THE final volume will cover the period from the opening of the civil war, in 1860, to the refunding of the national bonds, in 1881. The preparation of it is well advanced, and the author expects to complete it by the end of next year.



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BOOK I.

FROM 1789, TO THE WAR OF 1812.



# FINANCIAL HISTORY

OF

## THE UNITED STATES.

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### CHAPTER I.

#### FORMATION OF THE TREASURY DEPARTMENT.

THE independence of the American Republic had been acknowledged by the nations of the earth. From necessity a written constitution had been adopted. These were great achievements truly, and well might the people believe in their capacity to deal successfully with any future political problem. But to organize and maintain the government was an undertaking scarcely less perilous than the great feats which they had just performed. By a seven-years' war the people had won independence; six years of agitation had brought forth an admirable constitution; but a hundred anxious years were to pass before national security was established.

The first Congress convened in New York. Without delay the members engaged in the work of creating the state, war, and treasury departments. A discussion was kindled over Gerry's suggestion, that the latter department be placed under the control of a board of com-

missioners. Gerry was afraid to intrust so much power to one individual. But only a few members agreed with him. Most of them contrasted the administration of financial boards under the old government with the administration of Morris, to the obvious disadvantage of the former. Gerry himself had served as a member of one of those boards: he knew how inefficient they were, and had often spoken frankly about the way they managed the public business. The debate, though lasting several days, was very one-sided; and Congress wisely determined to appoint one person who alone should be responsible for administering the finances, and who should singly reap the glory, or incur the displeasure and shame, attending his official action.

Another question, of less importance, though worth notice, was raised over that portion of the committee's report establishing the treasury department, which required the secretary "to digest and report plans for the improvement and management of the revenue, and the support of the public credit." There was no hesitation in requiring him to prepare estimates of the public receipts and expenditures; but to go farther was regarded by many as a dangerous exercise of power. It was feared that members might be led, by the deference often paid to one who makes a special study of a subject, to support the plans of the secretary even against their own judgment. Perhaps the mischief would not stop here: it might spread until all the ministers were admitted on the floor to explain their plans, thus laying the foundation for an aristocracy or a detestable monarchy. Although these sentiments were not shared by all the members

of the House, yet the report was so modified, that the secretary was simply required "to digest and prepare plans," thus leaving the question how they should be reported to the future determination of Congress.

When the secretary had prepared his first report, which contained a plan for supporting the public credit, he inquired whether Congress would receive the report orally, or in writing. Some members said the subject was so difficult, that a written report could be more perfectly mastered: others contended that inquiries would be necessary, and that the secretary ought to be present to answer them. It was resolved to receive the report in writing, and the precedent thus established has always been followed; though it may be seriously questioned, whether, if the secretary were allowed to explain his reports, and required to answer questions put to him orally in the House in regard to them, more light would not be cast on the treasury business, and greater watchfulness and wisdom be displayed in conducting it.

The Act establishing the treasury department provided for the appointment of a secretary (who was to be the head of the department), and also for an assistant to the secretary (who was to be appointed by the secretary himself), a comptroller, an auditor, a treasurer, and a register.

The secretary was required to digest and prepare plans for the improvement and management of the revenue and for the support of the public credit; to prepare and report estimates of the public revenue and the public expenditures; to superintend the collection of the revenue; to decide on the forms of keeping and stating accounts, and

making returns, and to grant, under prescribed limitations, warrants for drawing money from the treasury, and, in relation to the sale of the public lands, to do whatever Congress might require of him; to report and give information to either branch of the Legislature, in person or in writing, respecting all matters referred to him by either body, or which should appertain to his office; and also to do such other services relating to the finances as Congress should direct.

The Act also prescribed the duties of the comptroller, treasurer, auditor, and register. None of these officers were to be concerned, either directly or indirectly, in commerce, vessels, public lands, or other public property, or purchase or dispose of any public securities of any State, or of the United States, or reap any gain for transacting the public business.<sup>1</sup> The clerks in the several departments were appointed by their respective chiefs.<sup>2</sup>

For the head of the treasury department, Hamilton was wisely chosen. Though only thirty-two years old, public opinion had marked him for the place and the hour. He possessed pre-eminent genius for organization, for creation. Morris had long before discovered these qualities in him. The position was indeed an arduous one. The old board of the treasury had not done any thing toward ascertaining the nature and amount of the public debt; a revenue system was to be created; the public indebtedness was to be ascertained, and provision made for its payment, beside organizing all the machinery of the treasury department for collecting and disbursing

<sup>1</sup> Act, Sept. 2, 1789, 1 Cong., first session, chap. 12.

<sup>2</sup> Act, Sept. 11, 1789, 1 Cong., first session, chap. 13.



the public revenues.<sup>1</sup> How he fulfilled the duties of his position "the whole country perceived with delight, and the world saw with admiration. He smote the rock of the national resources, and abundant streams gushed forth. He touched the dead corpse of the public credit, and it sprung upon its feet. The fabled birth of Minerva from the brain of Jove was hardly more sudden or more perfect than the financial system of the United States as it burst forth from the conception of Alexander Hamilton."<sup>2</sup>

John Eveleigh of North Carolina was appointed comptroller, and Oliver Wolcott of Connecticut auditor. Ill health soon caused Eveleigh to retire, and Wolcott was promoted to the vacancy.

The war department was established a few days earlier than the treasury department; but the law was enacted so hurriedly, that no provision was made for the disbursement of funds appropriated to it, or for the settlement of its accounts. The treasury department collected the public funds, and accounted for them: the war department was solely one of expenditure. The secretary of war ought to have been authorized to draw from the treasury the sums appropriated for the use of his department, and to have been solely responsible for the expenditure of them. The secretary of the treasury ought to have had no concern with the war department, except giving warrants for the moneys thus appropriated. Such warrants would have been an acquittal to the treasury

<sup>1</sup> The old board, too, had bequeathed to the treasury department a vast chaotic mass of accounts which had accumulated under the Confederation. — GIBBS'S *Administrations of Washington and Adams*, vol. i. p. 28.

<sup>2</sup> Webster's *Speeches*, vol. i. p. 199.

department and a charge against the secretary of war. The accounts relating to their expenditure, made under his sole direction, and finally adjusted by the auditor and comptroller of the treasury, would have constituted his acquittal. Thus the responsibility of each department, as well as its operations and accounts, would have been distinct and complete.

Instead of adopting this plan, the duties of the two departments in expending money for the military and naval service were blended, and the part allotted to each department was not very precisely defined. It may be remarked, however, that all contracts for rations, clothing, and magazine supplies, were made at the treasury ; while all expenditures for other objects were made by the secretary of war.

In this manner the business was conducted until 1792, when the office of "Accountant for the War Department" was created. He was charged "with the settlement of all accounts relative to the pay of the army, the subsistence of officers, bounties to soldiers, the expenses of the recruiting-service, and the incidental and contingent expenses of the department." Two other features of the Act require mention. The first was, all contracts and purchases for supplying the department of war were to be made by the treasury department. The other feature was, all expenditures for the pay of the army, the subsistence of officers, bounties to soldiers, the expenses of the recruiting-service, and the incidental and contingent expenses of the war department, were to be made by the secretary of war, the money to pay therefor having previously been ordered from the treasury.<sup>1</sup>

<sup>1</sup> Act, May 8, 1792, 2 Cong., first session, chap. 37.



In consequence of this legislation, the expenditures of the war department fell under two general divisions, — those for supplies of all kinds, and those for services and contingent expenses. The expenditures of the first class were neither controlled by the secretary of war, nor did he account for them: they were put under the management of the treasury department. The business was conducted in the following manner: the secretary of war informed the secretary of the treasury by letter what supplies were needed by his department, when and where they were wanted, and in some cases furnished the necessary samples, patterns, forms, and models. The secretary of the treasury complied with the demand of the war department to the extent of the appropriations authorized; the purveyor of public supplies, whose office was created by a subsequent Act, executing the demand under the secretary of the treasury's direction.

At that time two modes of procuring supplies were employed by the treasury, — contract and purchase. The contracts were of two descriptions, — the larger, such as those for clothing and provisions, which were executed by the secretary of the treasury himself, and distinct accounts of which were opened in the public books; and the smaller contracts, such as those for occasional supplies, which were concluded by the purveyor, and comprised in the general settlement of his accounts. Purchases of supplies, when they could be effected at the seat of government, were made by the purveyor; and this was his chief employment. For purchases in the country, and for procuring occasional supplies at military and recruiting posts, the secretary of the treasury

employed the agency of the supervisors and the collectors of the customs.

The accounts of the purveyor, and of all agents and contractors who procured or furnished supplies, were settled at the treasury, without any agency or interference of the war department. They passed first under the examination of the auditor, who reported them to the comptroller, whose decision was final.

When supplies were procured and delivered on requisitions of the war department, they became subject to the disposal of the secretary of war; and the duty and responsibility of the secretary of the treasury ceased.

The second class of expenditures in the department of war—those for services and contingent expenses, including the pay of the army, subsistence of the officers, bounties, recruiting, protection of the frontiers, etc.—were made under the sole direction of the secretary of war. The money for these objects was drawn from the treasury in the following manner: the secretary of war addressed a letter to the secretary of the treasury, requesting an advance of money to the treasurer of the United States in his capacity as treasurer for the war department. The letter specified the sum wanted and the head of the appropriation under which it was to be applied. The secretary of the treasury complied with the request to the extent of the appropriation made for that purpose. A warrant for the sum, signed by the secretary, countersigned by the comptroller, and recorded by the register, was drawn on the treasurer of the United States in favor of himself as treasurer for the war department. When the warrant was paid, the amount

was charged to the war department in the books of the treasury, and from that time remained subject to the disposal of the secretary of war, who drew it, as occasion required, by warrants signed by himself, and countersigned by the accountant. The latter officer kept an account of all these warrants, and to him every account for the expenditure of money drawn under them was rendered in the first instance. He adjusted them, and reported them, like all other accounts of public expenditure, to the auditor of the treasury. From him they passed to the comptroller, whose action was conclusive.

In the latter branch, therefore, of the expenditures for the department of war, the control and responsibility of that department were complete, and the accounts were susceptible of a clear and distinct division and adjustment. The secretary of war drew from the treasury the moneys appropriated by law, expended them, and accounted for them.<sup>1</sup> But in the other branch of expenditures — those which related to supplies for the use of the war department — there was a divided, and consequently an imperfect, responsibility. The secretary of war judged what supplies were necessary; but instead of purchasing them, and drawing money from the treasury to pay for

<sup>1</sup> In expending them, and accounting therefor, the accountant of the department was the agent of the secretary, and made up and stated his accounts, and submitted them, with the vouchers belonging to them, to the auditor and comptroller of the treasury, who settled them like the accounts of all other persons intrusted with public money. The secretary of the treasury had no further concern in the business than to pay to the secretary of war the moneys appropriated by law for that department. In respect to this class of expenditures there was a perfect responsibility in each department, — in the treasury, for its payment; in the other, for its expenditure.

them, he informed the secretary of the treasury what was wanted, and he procured them. Thus the former officer was responsible for making known the need of supplies; and the latter officer, for their quality, price, and delivery. The moneys thus appropriated for the war department were expended by the secretary of the treasury, who was converted, with respect to these expenditures, into a subordinate agent of the department of war. The supplies were purchased for one purpose, and charged to the corresponding head of appropriation. When placed in the public stores, they were found useful for another purpose, and were accounted for under another head. The secretary of war, who used them, did not know to what account they were charged; and the secretary of the treasury, who purchased and charged them, did not know for what purpose they were used. Hence there resulted an endless confusion and uncertainty in the accounts; and the apprehended difficulty to ascertain what expenses were incurred for any particular branch of the military service often changed into an impossibility.<sup>1</sup>

When the navy department was created, the same state of things existed therein for a time. At last a new arrangement was devised for obviating the difficulties described, which was as simple as it was effective. This consisted in endowing the secretaries of war and of the navy with the same powers and responsibilities with respect to expenditures for supplies as the former already possessed with respect to expenditures for services. The office of accountant for the navy department was estab-

<sup>1</sup> Harper's Report on Expenditures of the Ex. Departments, July 5, 1798, 1 Finance, p. 590.



lished; the purveyor of supplies was put under the direction of the navy and war departments; and the money appropriated for each department was thereafter accounted for under such separate heads of appropriation as conveyed a clear idea of the amount expended in each department of the public service.<sup>1</sup>

<sup>1</sup> Act, July 16, 1798, 5 Cong., second session, chap. 85.

## CHAPTER II.

## HOW THE ACCOUNTS AND DEPOSITS WERE KEPT.

BEFORE tracing the laws enacted for funding and paying the public debt, we shall describe how Hamilton kept the public accounts and deposits. If this, as well as the preceding chapter, seem uninviting to the reader, let him be assured that neither could be omitted in a fairly rounded history of the national finances.

When the new government was fairly launched, it collected an income from imports and tonnage, spirits distilled within the United States, from fines, penalties, and forfeitures, domestic and foreign loans, revenues of the post-office, duties on patents, coined cents, and debts from individuals.

The duties on imports and tonnage were received by the collectors of customs. The duties on spirits distilled within the United States were received by collectors of divisions into which the country was divided, who paid them to the inspectors of surveys, by whom they were paid to the supervisors of districts. The fines, penalties, and forfeitures incurred, were received by the marshals, who paid them to the collectors of customs and to the supervisors of districts, except those incurred for crime against the United States, which were sent by the marshals directly to the treasury. The domestic loans, duties

on patents, and debts from individuals, were paid into the treasury without any intermediate agency. Foreign loans were received by the bankers abroad under whose immediate agency they were made. The revenue of the post-office was received by the deputy postmasters, who paid it to the postmaster-general; and the coined cents were received by the treasurer of the mint.

The treasurer was the medium of all receipts and disbursements of public moneys. All receipts and disbursements must be sanctioned by warrants drawn on and in favor of that officer. These warrants were signed by the secretary of the treasury, countersigned by the comptroller, and registered by the register. Warrants for receipts required an acknowledgment of the treasurer in order to discharge the payer; and warrants for disbursements required an equivalent acknowledgment by the person receiving them to discharge the treasurer.

Five modes were adopted in regard to receipts, each of which may be briefly explained. The first mode was for the treasurer to draw bills or drafts, under the special direction of the secretary of the treasury, on those who had public funds in their hands. Such drafts, before leaving the treasurer, were registered and countersigned by the register of the treasury, or by a confidential clerk designated for that purpose. This mode applied to money drawn from other countries, as well as to money accruing in the United States, except that foreign bills were always countersigned by the register himself.

The second mode was by making deposits in the several banks by a general order of the secretary of the treasury. As soon as they were made, they were passed by the banks

to the credit of the treasurer. The officer making the deposits—who was either a supervisor of the revenue, or a collector of the customs—took duplicate receipts from the bank, one of which he immediately sent to the treasury, while retaining the other. The bank also made weekly returns,—one to the secretary of the treasury, another to the treasurer,—specifying the persons making the deposits and the amount of them.

The third mode was by remittances of the supervisors and collectors to the treasurer. These were generally made in bank-bills, though sometimes in bills or orders on individuals: in some cases, however, they were made in mutual credits and in specie. Another mode was by special direction from the secretary of the treasury to the supervisors and collectors of the customs to make advances, provisionally, for certain specified purposes; and the last mode was by warrants on persons in favor of the treasurer.

The first four modes of remitting money to the treasury, in the end were resolved into the mode last described. All advances and payments were always sanctioned by warrants. No party who paid money could be discharged, save by a warrant receipted by the treasurer. Bills or drafts drawn by him were either deposited in a bank, or remitted to certain public officers or agents, as the secretary of the treasury directed.

In respect to disbursements, one mode was by warrants issued by the treasurer. This was the general method, and the invariable one when payments were made immediately at the treasury. The second mode was by drafts drawn by the treasurer, under special order of the



secretary of the treasury, registered and countersigned by the register. The third mode was by a special order of the secretary of the treasury to the supervisors and collectors to make advances of money provisionally for certain specified purposes. These directions were never given with regard to any money which had passed to the credit of the treasurer. The last two modes were finally resolved into the first; so that warrants finally issued for the sums paid either on the drafts of the treasurer, or under the direction of the secretary. These were the modes adopted by Hamilton for disbursing the public funds; but in a very few instances there were some slight departures, which need not be described.

The forms established for keeping the public accounts, therefore, were based on the following principles: no payment into the treasury was valid so as to justify a definitive credit to the payer, unless the treasurer's receipt was indorsed on a warrant in the creditor's favor, signed by the secretary of the treasury, countersigned by the comptroller, and recorded and attested by the register; and no payment from the treasury was valid, unless made in pursuance of a warrant on the treasury, signed by the secretary of the treasury, countersigned by the comptroller, and attested by the register.<sup>1</sup>

Such is the outline of the system adopted by Hamilton for receiving and disbursing the public funds. The preservation of the system, with only slight changes by every succeeding secretary, is proof of its excellence. It has withstood the test of a hundred years, and still remains not less effective than when first adopted.

<sup>1</sup> Baldwin's Report on Condition of the Treas. Department, May 22, 1794, 1 Finance, p. 281.

In the beginning, the public money was kept in several banks, thus continuing the usage established by the Confederation. The treasurer himself never actually had any public money in his possession. It was, in fact, in a bank from the moment of receiving it until disbursed. The only exceptions were bank-bills, orders on individuals, mutual credits, and specie remitted by the supervisors of the revenue and collectors of the customs to the treasurer. As soon as received, they were deposited in a bank to the credit of the treasurer. Nor did the secretary of the treasury, or any other officer of the treasury department, at any time have possession of public money, except in a few instances too unimportant to be mentioned.

Previous to 1816 no law was enacted about the deposits, and the secretary of the treasury exercised his own authority in making them.<sup>1</sup> During the first three years of the government, the Bank of North America, which was now thriving under a charter from the State of Pennsylvania, was employed for that purpose. The banks of New York, of Massachusetts, and of Maryland, were next selected and used. When the United States bank was founded, in 1791, this was added to the number.<sup>2</sup> From time to time deposits were placed in other banks.<sup>3</sup> In 1809 Congress required disbursing-officers to keep "the public moneys in their hands" in some "incorporate bank, whenever practicable," which was to be "designated for the purpose by the President of the

<sup>1</sup> Woodbury's Report on the Finances, September, 1837.

<sup>2</sup> Woodbury's Report on the Public Money, December, 1834.

<sup>3</sup> Gallatin's Report to the House, Dec. 23, 1806, 2 Finance, p. 216.

United States." Nothing was said concerning the deposits of collecting-officers.<sup>1</sup>

In February, 1811, just before the expiration of the charter of the United-States bank, and after Congress had refused to extend it, Gallatin, who was secretary of the treasury, selected other banks as public depositories. The only condition required of them in the beginning was, that, in making discounts, preference should be given to those having custom-house bonds to discharge. The reason for imposing this condition was a very just one. The closing of the United-States bank and its branches would doubtless cause a pressure on other banking-institutions for pecuniary assistance. Of course, it was of primary importance to the government to collect its revenue with facility: consequently Gallatin exacted this requirement, so that the government might not suffer from the sudden dissolution of the national bank. Afterward the secretary required from each bank a monthly statement of its condition.<sup>2</sup> By order of the President the same banks were used by collecting as well as by disbursing officers.

The deposits were kept in this way until 1816, when the second United-States bank was founded. Its charter provided, "that the deposits of the money of the United States, in places in which the said bank and branches thereof may be established, shall be made in said bank or branches thereof, unless the secretary of the treasury shall at any time otherwise order and direct, in which case, the secretary of the treasury shall immediately lay

<sup>1</sup> Act, 10 Cong., second session, chap. 28.

<sup>2</sup> Gallatin's Report on Public Deposits in Banks, Jan. 13, 1812.

before Congress, if in session, and, if not, immediately after the commencement of the next session, the reasons of such order or direction.”<sup>1</sup>

The secretary of the treasury, therefore, retained discretionary power in keeping the public deposits. This power was exercised, to a limited extent, during the next three years; but in 1832 he employed it in a terrific manner. He removed all the deposits from the National bank, and put them in State banks. Their removal fired the entire country with intense excitement, which burned for a long period with undiminished fury. Even when the excitement ceased, the evil consequences of the act continued, like the billows of the Atlantic, which heave and roll long after the storm which set them in motion has passed away.

The money received by the government in the beginning consisted of bank-notes and specie. Hamilton instructed the collectors of customs to receive certain State-bank notes, payable near the seat of government, and to credit them as cash, when forwarded by mail, or otherwise, to the treasurer. When the United-States bank was organized in 1791, its notes were accepted as equivalent to specie by the government: so were the notes of the second United-States bank. This action by Hamilton and his successors was apparently sanctioned by Congress in 1816. After that time deposits were made in specie, or bills of the United-States bank, or of such other specie-paying banks as the government depositors were willing to receive at par, and credit as cash. The practice of receiving bills on special deposit,

<sup>1</sup> Sect. 16.



which was commenced in 1814, and continued for four years, was discontinued in 1818; and payments thereafter were made in specie or its equivalent.<sup>1</sup>

The government sustained no losses from the employment of the National banks as depositories. The State banks employed after 1817 were less faithful.<sup>2</sup> During the succeeding seventeen years, the losses exceeded one million dollars from employing them; although the second United States bank flourished nearly the whole period, and kept most of the deposits.<sup>3</sup>

<sup>1</sup> Woodbury's Annual Report, December, 1834.

<sup>2</sup> Woodbury's Report on the Public Money, December, 1834. "Not a single selected State bank failed between the expiration of the old charter and the grant of the new one." — WOODBURY.

<sup>3</sup> Woodbury's Annual Report, December, 1838.

## CHAPTER III.

## THE FUNDING OF THE REVOLUTIONARY DEBT.

Perhaps the gravest subject that ever confronted Congress was the Revolutionary debt. The more thoughtful political leaders felt that the destiny of the republic would turn upon the plans adopted for determining the amount, and providing for its payment. No one saw more difficulties than Hamilton, yet he was confident of finding a safe path for the nation. Nor was his faith, begotten by a profound study of the subject, shared by him alone. When President Washington was once conversing with Robert Morris about the condition of the finances of the country, he inquired, "What are we to do with this heavy debt?" To which Morris replied, "There is but one man in the United States who can tell you: that is Alexander Hamilton."<sup>1</sup> Doubtless Morris's reply was still fresh in Washington's mind when selecting Hamilton for chief of the treasury department.

Soon after the first convening of Congress, the House instructed Hamilton to prepare a report on the public debt for presentation at the next session. The subject was vast and intricate: nevertheless, the clear eye of Hamilton was able to pierce through it, and discover the true principles of settling the multifarious obligations

<sup>1</sup> Hamilton's *Hist. of Republic*, vol. iv. p. 30.

of the government, and also of providing for their payment after the amount should be determined.

The public indebtedness was of two kinds,—foreign and domestic. The foreign creditors were France, Holland, and Spain. The amount due to each government was clearly known; and no one thought of repudiating, or changing the terms of, the several contracts under which the loans had been made. A small sum also was due to foreign officers who had served in the war for independence.

The domestic indebtedness was composed of three branches. In the first place may be mentioned the obligations incurred directly by the government. These consisted originally of loan-office certificates, amounting nominally to \$67,189,816.15. Certificates also had been given to persons from whom supplies had been seized for the use of the army; and other certificates had been given by commissioners in settlement of claims and to soldiers. To these must be added bills of credit, and indents given for interest accruing on loan-office certificates and the other certificates just mentioned. Lastly there was the “registered debt,” as it was called, consisting of certificates issued by the register of the treasury in lieu of other obligations.

A very considerable portion of this indebtedness had been transferred by the original holders at varying discounts to other persons; and one of the first questions started was, Should the present holders be paid the face-value of the debts thus purchased, or only what they had paid with interest? From this question sprung another; namely, whether the difference between the two sums ought not to be paid to the original holders.

These questions were warmly debated in Congress, and outside by the people. "An American Farmer" exclaimed, "Can it be thought reasonable or just that the assignee should now be entitled to that which the assignor honorably relinquished to the distressed state of the country? Must it not rather be regarded as the most atrocious act of iniquity and injustice that ever disgraced the annals of civil society, that, to secure the full payment of the debt to the assignee, a funding-system should take place by which the original creditors and their posterity will become the hewers of wood and the drawers of water to a foreign moneyed interest?"<sup>1</sup>

Hamilton had reasoned with consummate ability in favor of executing the contracts of the government without reference to their transfer from one person to another. The majority of Congress agreed with him; although there were strong minds who thought otherwise, among whom were Madison and Jefferson. Public opinion, however, though not united strongly, coincided with the Hamiltonian view.<sup>2</sup>

The following plan was devised for funding this portion of the public debt. A loan was to be opened by the secretary of the treasury, at the treasury office, and by commissioners appointed for that purpose, in each State.

<sup>1</sup> Letters addressed to the Yeomanry of U. S., p. 7.

<sup>2</sup> Witherspoon wrote to Hamilton, "We have still an idea, meeting us in conversation and publication, that a discrimination must be made between original creditors, and speculators as they call them. Discrimination is totally subversive of public credit. Such a thing registered and believed on the exchange of London would bring the whole national debt to the ground in two hours." — HAMILTON'S *Hist. of Republic.*, vol. iv. p. 74, note.



The loan was to be large enough to include the whole of this portion of the public debt. The holders were allowed to subscribe for the loan, and pay therefor in the evidences of debt they held against the government at their specie value, except that the Continental money was to be received at the rate of one hundred dollars in bills to one in specie. The subscribers were to receive for the principal due to them stock for two-thirds of the principal, bearing six per cent interest, payable quarterly, the government having the right to redeem two per cent of the stock every year if it desired, though under no obligation to do this. For the remaining one-third of the principal due to the subscribers, they were to receive the same amount of stock, bearing six per cent interest after the year 1800, and redeemable on the same terms as the other stock received for the two-thirds of the principal.

With respect to funding the interest due to this class of creditors, it was to be reckoned on their various claims to Dec. 1, 1790, and certificates were to be given therefor, bearing three per cent interest, and redeemable whenever the government should make provision for that purpose. To persons holding indents taken for interest due on loan-office certificates and other obligations, similar certificates were to be given as those last mentioned.

Another portion of the public debt, which had been incurred by the States for carrying on the war, Hamilton maintained the government ought to assume.

The controversy with respect to assuming it was bitter and prolonged, but the view of the secretary finally prevailed, after a hard struggle, by a majority of only two votes. The Southern members were the chief opponents,

and some of them were persuaded to yield by a concession on the part of Northern members concerning the final location of the capital. Thus was the national honor saved, and the capital located on the banks of the drowsy Potomac.

The indebtedness incurred by the States was very varied; and in some cases the accounts were so confused, that it was impossible to find out the exact amount expended for war purposes. One form of indebtedness, however, was common to all of them; namely, bills of credit of the new emission, for the payment of which the States were responsible. In regard to the other State obligations, they varied much in the several States. In Massachusetts, for example, half-pay notes had been issued to the widows and orphans of deceased officers, and certificates for the interest due on them, beside balances stated from the books of the commissioners for settling with the Continental army. The Connecticut debt consisted of notes payable to the army, and others issued by special Act of the Assembly, notes issued for remounting dragoons, new ones issued in place of old notes reloaned, certificates for interest on State debt, unpaid balances of orders payable from a specific tax, State bills emitted in 1780, pay-table orders, and old emissions created before the war. In New York the debt was composed of certificates for money loaned by individuals, horse notes, notes issued for pay and for depreciation of pay and pensions, certificates for the payment of levies and militia, for claims on forfeited estates, and bills of credit. In New Jersey certificates were also given for depreciation of pay, and the county commissioners had issued certificates for military services.

Another kind of certificates had been granted for demands against forfeited estates. In Virginia was the army debt, also that of the loan-office certificates for paper money funded, balances to foreign creditors, beside numerous land-warrants, which in many cases had been given for the same tract of land. The debt of South Carolina was reduced to a more systematic form, and consisted of principal and special indents and a foreign debt. The indebtedness of the other States had spread out in many ways, some of which were so dark and crooked, that it was quite impossible to go far in them without getting lost.<sup>1</sup> It was this confusion of the State finances which led Fisher Ames to remark, "We perceive a great unavoidable confusion throughout the whole scene, presenting to the imagination a deep, dark, and dreary chaos, impossible to be reduced to order without the mind of the architect is clear and capacious, and his power commensurate with the occasion." The financial condition of our country was not unlike that of France after the death of Louis XIV., when it is said that only the most vague notions prevailed, even among financiers, of the nature and amount of the public indebtedness.

The aggregate debt of the States, which had been incurred in sustaining the common cause against Great Britain, was supposed to be twenty-five million dollars. Twenty-one millions and a half were assumed as the amount expended; and Congress proposed to issue a loan for this sum, to which the States might subscribe, paying therefor in certificates or notes issued by them for debts contracted prior to the 1st of January, 1790.

<sup>1</sup> Schedule E, appended to Hamilton's Report on the Public Credit.

The amount of the subscription of each State was limited as follows :—

New Hampshire . . .	\$300,000	Maryland . . . . .	\$800,000
Massachusetts . . .	4,000,000	Virginia . . . . .	3,500,000
Rhode Island . . .	200,000	North Carolina . . .	2,400,000
Connecticut . . . .	1,600,000	South Carolina . . .	4,000,000
New York . . . . .	1,200,000	Georgia . . . . .	300,000
New Jersey . . . .	800,000		
Pennsylvania . . .	2,200,000	Total . . . . .	\$21,500,000
Delaware . . . . .	200,000		

The Act provided, that, if the total amount subscribed by any State exceeded the sum specified therein, a similar percentage should be deducted from the claims of all subscribers. Four-ninths of the stock issued by the government for this loan bore interest at six per cent, beginning with the year 1792; one-third bore three per cent interest, beginning at the same time, and the balance, two-ninths, bore six per cent interest after the year 1800. The latter kind of stock was to be redeemed whenever provision was made for that purpose. And, with respect to seven-ninths of the stock, the government was at liberty to pay two per cent annually if it desired; but no imperative obligation was created to pay it.

Nor did the government forget to provide, that, in case a State did not subscribe for the whole amount to which it was entitled, interest should be paid on the balance, in trust for its creditors. This undertaking was to be executed until there should be a settlement of accounts between the government and the different States. Moreover, each State was made a debtor to the government for



the amount subscribed and paid. Thus the creditors of the several States were to be paid by the government; and the States were to become indebted to it, and cease to be debtors to individuals.<sup>1</sup>

There yet remained a third kind of domestic indebtedness existing between the States and the government. The former had advanced money to the government, and the latter had advanced money to the States. It was necessary to adjust these advances in order to distribute fairly the burden which each State ought to bear. Three commissioners were appointed to examine the claims, which were to be presented before the 1st of July, 1791, "and to determine on all such as should have accrued for the general or particular defence during the war, and on evidence thereof, according to the principles of general equity, so as to provide for the final settlement of all accounts between the United States and the States individually." They were to debit the States with advances made to them, with interest thereon to the beginning of the year 1790, and to credit them with disbursements and advances, with interest to the same period; and, having struck the balance due to each State, were to find the aggregate of all the balances, which was to be apportioned among the States. The rule for apportioning the aggregate of the balances was to be the one prescribed in the National Constitution "for the apportionment of representation and direct taxes," as fixed by the first census. The difference between the apportionments and the respective balances was to be carried in a new account to

<sup>1</sup> Act, Aug. 4, 1790, 1 Cong., second session, chap. 34.

the debit or credit of the States respectively, as the case might be.<sup>1</sup>

Such were the forms of the national domestic indebtedness, and the plan adopted for funding it. The plan, in every essential feature, was the work of Hamilton. Congress made some clumsy alterations, but Hamilton might well rejoice because his plan had not been more disfigured.

When Hamilton presented his first report, the debt of the United States, as nearly as could be ascertained, was as follows:—

Foreign debt, principal . . . . .	\$10,070,307 00
Foreign debt, interest . . . . .	1,640,071 62
	<u>\$11,710,378 62</u>
Domestic debt, principal . . . . .	\$27,383,917 74
Domestic debt, interest . . . . .	13,030,168 20
	<u>\$40,414,085 94</u>
State debt, ascertained . . . . .	\$18,201,205 60
State debt balance, estimated . . . . .	6,798,794 40
	<u>\$25,000,000 00</u>

No creditor was compelled to subscribe to the loan: subscribing was purely voluntary. Indeed, the entire funding-scheme was only a proposal by the government to its creditors. If they rejected it, their claims were not to be ignored. On the other hand, Congress provided that nothing in the Funding Act should be construed “in any wise to alter, abridge, or impair the rights of those creditors of the United States” who should not subscribe

<sup>1</sup> Act, Aug. 5, 1790, 1 Cong., second session, chap. 38. The following supposititious statement of accounts between the United States and individual



to the loan, "or the contracts upon which their respective claims were founded." The non-subscribing creditors were to receive during the year 1791 "a rate per centum on the respective amounts of their respective demands, including interest to the last day of the year, equal to interest payable to subscribing creditors," which was to be paid in the same manner. But as many of their certificates were counterfeits, or had not "been liquidated to specie value," they were required to procure new ones before receiving payment of their interest.<sup>1</sup>

Thus, after a long and warm controversy, Congress launched a scheme for funding the public debt. It was not a perfect measure. Rarely does a piece of legislation exhibit perfect workmanship. Every law is the embodiment of a compromise of opinion on the part of the lawmakers, and the Funding Act was not the product of any new method of legislation. It was merely the expression of the united judgment of a body of men, many of whom

States was appended by Hamilton to his Report on Public Credit, illustrating his plan for the payment of this portion of the public debt :—

STATES.	Ratio.	Balance due to the States respectively.	Proportion of each State of the aggregate of those balances, according to the ratio.	Balances against certain States.	Balances in favor of certain States.
New Hampshire . . .	3	\$57,500	\$60,000	\$2,500	..
Massachusetts . . .	8	180,000	160,000	..	\$20,000
Rhode Island . . .	1	20,000	20,000	..	..
Connecticut . . .	5	110,000	100,000	..	10,000
New York . . .	6	135,000	120,000	..	15,000
New Jersey . . .	4	72,500	80,000	7,500	..
Pennsylvania . . .	8	170,000	160,000	..	10,000
Delaware . . .	1	30,000	20,000	..	10,000
Maryland . . .	6	110,000	120,000	10,000	..
Virginia . . .	10	187,500	200,000	12,500	..
North Carolina . . .	5	90,000	100,000	10,000	..
South Carolina . . .	5	87,500	100,000	12,500	..
Georgia . . .	3	50,000	60,000	10,000	..
	65	\$1,300,000	\$1,300,000	\$65,000	\$65,000

<sup>1</sup> Sec. Hamilton's Address to the Public Creditors, Works, vol. vi. p. 632.

yielded somewhat in order to accomplish something, though realizing the possibility of framing a wiser measure.

In Congress and elsewhere there were persons opposed to any plan of funding.<sup>1</sup> They feared that such an adjustment of the debt meant an indefinite prolongation in the payment of it. Had not this been the effect of funding the English debt? they said; and will not a similar effect attend the transplanting of the system to our shore? With every step forward in applying the principle of funding, their opposition increased, reaching its height when the funding of the indebtedness of the States was attempted. Opposition was then so strong as to jeopardize the success of the entire movement. When the smoke of the contest had cleared away, two political parties might be seen, whose opposition, though varying much in conviction, power, and earnestness, has never ceased.

Some persons believed that funding was a great speculation, in which many who favored it expected to win fortunes by the rise in the value of the public debts. Jefferson plainly affirmed that the "greedy members" of Congress who voted for funding acted from self-interest.<sup>2</sup> A large portion of the debt had been sold by the original holders; and every creditor of the government,

<sup>1</sup> "The uniformity and certainty of the evils arising from public credit and funding systems, wherever introduced, manifest that we ought not to attribute such evils to any mismanagement of the agents, but to consider them as the unavoidable consequence of violating those laws of nature which God has ordered to regulate men in society, which, therefore, cannot be violated with impunity." — *Letters addressed to the Yeomanry of U. S.*, p. 23.

<sup>2</sup> Remarks upon the Bank of the U. S., p. 7.

doubtless, was heartily in favor of funding.<sup>1</sup> Others feared that it would cement the government too strongly and change it into an aristocracy.<sup>2</sup>

Indeed, the funding system was attacked so fiercely, that Hamilton was induced to write a vindication of it. "It is a curious phenomenon in political history," he remarks, "that a measure which has elevated the credit of the country from a state of absolute prostration to a state of exalted pre-eminence, should bring upon the authors of it obloquy and reproach. It is certainly what, in the ordinary course of human affairs, they could not have anticipated."<sup>3</sup>

If the adoption of the funding system created some opposition, it was very slight compared with the joy experienced generally by the people. The Ship of State had safely passed a dreaded bar, and the danger of shipwreck was over.

Within two years after enacting the law, Hamilton gave

<sup>1</sup> An Inquiry into the Principles and Tendency of Certain Public Measures, p. 46.

<sup>2</sup> Jefferson, who was a strong opponent of the bill, as he was of nearly every measure emanating from Hamilton, says, that "when the trial of strength had indicated the form in which the bill would finally pass, this being known within doors sooner than without, especially than to those who were in distant parts of the Union, the base scramble began. Couriers and relay-horses by land, and swift sailing-boats by sea, were flying in all directions. Active partners and agents were associated and employed in every State, town, and country neighborhood; and this paper was bought up at five shillings, and even as low as two shillings, in the pound, before the holder knew that Congress had already provided for its redemption at par. Immense sums were thus filched from the poor and ignorant, and fortunes accumulated by those who had themselves been poor enough before." — *Remarks*, p. 7. *An Inquiry*, p. 42.

<sup>3</sup> Works, vol. vi. p. 640.

an account of its operation.<sup>1</sup> The time limited by the Act for subscribing to the loan had expired, and the secretary joyfully announced the success of the plan. The subscriptions had amounted to \$31,797,481.22.<sup>2</sup> The trustees of the sinking-fund had purchased \$1,131,364.76 of the debt, because it could be done very advantageously to the government. The unsubscribed residue amounted to the sum of \$10,616,604.65. Of this balance, \$6,795,-815.26 consisted of registered debt and interest. This portion of the debt was chiefly held by foreign creditors; who had been somewhat tardy in sending their subscriptions. But extensive orders received from them since the expiration of the time limited for receiving the debt furnished ample proof of their desire to accept the proposal of the government. Consequently, Hamilton recommended an extension of the time for subscribing to the loan, which was granted.

Another portion of the unsubscribed indebtedness consisted of outstanding or floating evidences of debt, the amount of which the secretary estimated at \$3,697,466.14. The chief part of this indebtedness was represented by loan-office certificates issued between Sept. 1, 1777, and March 1, 1778. Many of the holders had accepted the offer of the government, and had exchanged their certificates for stock; but some were dissatisfied. They maintained that the indebtedness of the government to them possessed a greater value than the indebtedness

<sup>1</sup> For history of the discussion over this report, see Hamilton's *Hist. of the Republic*, vol. iv. pp. 371-382.

<sup>2</sup> For detailed statement of subscriptions, see *Elliot's Funding System*, p. 127.



incurred at a later period, and consequently that they ought not to be compelled to exchange their old certificates for new ones, as the Act provided, before receiving interest. Regarding the objection not wholly ill founded, Hamilton urged a slight modification in the funding-law, hoping to meet their wishes, and thus lead them to subscribe. It was therefore provided, that the creditors who had not subscribed to the loan should nevertheless receive the same interest on the sum due to them as other creditors had received to whom a similar sum was due; thus placing the subscribing and the non-subscribing creditors upon the same level in receiving interest. The period for subscribing to the public stock was extended several times; and in the end nearly every creditor subscribed. In 1817 the secretary of the treasury reported that the total amount of certificates of all kinds, including indents of interest outstanding, was less than one hundred and sixty thousand dollars, nearly the whole of which had long been barred by statutes of limitation.<sup>1</sup>

The amount subscribed in the debts of the States, reported by Hamilton in February, 1793, was \$17,072,334.39. This was smaller than the amount assumed by \$4,427,665.61. Several reasons existed for not subscribing the balance. The first was, the sum assumed with respect to certain States exceeded the actual amount of their debts; secondly, in many instances a part of the existing debt was in such a form as to exclude it without violating the law; lastly, ignorance or forgetfulness of the time limited for receiving subscriptions.

<sup>1</sup> The exact amount reported was \$159,013.56. Crawford's communication to the House, Jan. 9, 1817, 3 Finance, p. 150.

Several of the States were desirous of having the time extended for receiving the debts included within the terms of the law, and with this desire Congress willingly complied. But when an effort was made to stretch the scope of the law far enough to include all the indebtedness incurred by the States for the common defence, instead of adhering to the arbitrary sum of \$21,500,000, the majority of Congress would not consent. Hamilton urged the assumption of the entire amount with great force, and his recommendation was lost in the House by only a few votes:

Obvious justice required the assumption of all the debts thus contracted. Congress, under the Confederation, had repeatedly promised to do full justice to all the creditors and States; and their successors had no right to repudiate the promise. The assumption of the claims of State creditors, to whom compensation was due for their efforts in aiding the common cause against Great Britain, was not so much an act of expediency as an act of open and express obligation. There was no honest way of escaping the fulfilment of it. Moreover, the States had granted the exclusive right to the government of collecting a revenue on imports, which was the richest source of public revenue. When the States relinquished the right of levying this tax, they expected that the government would relieve them from their obligations incurred for the general welfare. To appropriate the richest fountains of taxation belonging to the States, and to refuse the assumption of their war obligations, was harsh treatment, and just ground for resentment.

When this portion of the public indebtedness was



finally adjusted, the amount assumed for each State was as follows:—

New Hampshire . . .	\$282,595 51	Maryland . . . .	\$517,491 08
Rhode Island . . .	200,000 00	Virginia and Ken-	
Massachusetts . . .	3,981,733 05	tucky . . . .	2,934,416 00
Connecticut . . .	1,600,000 00	North Carolina . .	1,793,803 85
New York . . .	1,183,716 69	South Carolina . .	3,999,651 73
New Jersey . . .	695,202 70	Georgia . . . .	246,030 73
Pennsylvania . . .	777,983 48		
Delaware . . . .	59,161 65	Total . . .	\$18,271,786 47

Thus the amount assumed in the beginning proved sufficient to cover the indebtedness of all the States, except Rhode Island and Connecticut, under the regulations adopted for the admission of debts in favor of the States.

In criticising the funding-system, Gallatin displayed greater acuteness than any other critic of the time. "Considering the assumption of State debts as intended solely for the purpose of doing equal justice to the several States by equalizing their accounts," he says, "it may be demonstrated, that had Congress waited until the settlement of accounts had taken place, before any State debts were assumed, they might have produced the same effect by an assumption, in favor of the creditor States, to the amount of \$11,609,259.69, which has been produced by the premature assumption of \$21,789,370.47;<sup>1</sup> which have been actually assumed or funded in favor of the several States. That is to say, that the accounts

<sup>1</sup> This sum was composed of the amount finally assumed, \$18,271,786.47, which the States had advanced, united to a balance of \$3,517,584 due to the States in their account with the government for money advanced. See No. xv. to Gallatin's Sketch of the Finances.

of the Union with the individual States might have been placed in the same relative situation in which they now stand by assuming \$10,180,110.78 less than has been assumed.”<sup>1</sup> Such an adjustment would have equalized the burdens of the States among each other; yet they would have been required to pay more than eleven millions to their creditors, which many believed it was the plain duty of the government to pay, having appropriated the best sources of revenue formerly possessed by the States. Gallatin did not go so far as to maintain that such an adjustment ought to have been made, though perhaps this inference may be fairly drawn from his writings.

His next criticism is more weighty, and cannot be easily shaken. “Even the warmest supporters of the State debts,” he says, “on its most enlarged scale; even those who think, that, both on the score of justice and in order to relieve them from a heavy burden, it was wise and politic to have assumed the whole of the sum which was actually assumed in favor of the creditor States,—even they must acknowledge that an assumption made at random before the accounts were settled, rendered it unavoidable to assume debts in favor of States which were, in fact, already indebted to the Union, and that the consequence has been such as might have been foreseen. Thus near \$1,200,000 were assumed for the State of New York, which, when the accounts were finally settled, was found to be indebted to the Union to the amount of more than two millions. It is self-evident,” he adds, “that the debts thus assumed for debtor States were not due by the United States, that they are a debt unneces-

<sup>1</sup> Views of the Public Debt, p. 24.

sarily constituted and created by the present government. On the most superficial view of the subject, it appears that \$2,069,565.71 have been assumed for debtor States, to the manifest injury of the other States.”<sup>1</sup> A twofold reason existed for pressing the assumption of the State debts before there was a settlement of the accounts between the States and the government. In the first place, the States which were burdened with the heaviest debts were impatient for an early settlement, “apprehensive,” as Gallatin says, “either that they might not be found creditor to so large an amount as the sums assumed for them, or that, if they did not obtain immediate relief, justice might afterwards be denied to them.” The other reason was the strengthening of the government by rendering all the creditors of the several States dependent on the Union.

In regard to the debts between the States and the government, the time for presenting them on either side was continued; and in December, 1793, the commissioners made their final report. In accordance with the principles adopted by Congress for adjusting this class of accounts, the States were debited and credited as follows:—

CREDITOR STATES.		DEBTOR STATES.	
New Hampshire . . .	\$75,055	New York . . . .	\$2,074,846
Massachusetts . . .	1,248,801	Pennsylvania . . .	76,709
Rhode Island . . .	299,611	Delaware . . . .	612,428
Connecticut . . . .	619,121	Maryland . . . .	151,640
New Jersey . . . .	49,030	Virginia . . . .	100,879
South Carolina . . .	1,205,978	North Carolina . .	501,082
Georgia . . . . .	19,988		
Total . . . . .	<u>\$3,517,584</u>	Total . . . . .	<u>\$3,517,584</u>

<sup>1</sup> Views, p. 25.

After making this report, Congress enacted that interest on the balances due to the creditor States should be allowed from the last day of December, 1789, for the four succeeding years, at the rate of four per cent per annum, "and that the amount of such interest be placed to the credit of the State to which the same shall be found due upon the books of the treasury of the United States, and shall bear an interest of three per centum per annum" after the last day of December, 1794.<sup>1</sup> With respect to the balances, Congress had already provided for funding them, within twelve months from the time they were ascertained, "upon the same terms with the other part of the domestic debt of the United States."<sup>2</sup>

Thus the government faithfully performed its duty toward the States, and funded the balances due to them, but they, on the other hand, were not so faithful. They neglected almost totally to do any thing. The government was powerless to collect the balances in its favor. Had the government delayed to pay to the States the amount assumed, it might have retained enough to balance every account. It is true that the indebtedness on the one side was somewhat different from that on the other. Yet it may be questioned whether such a course by the government would not have been strictly just. Unwilling to pay, the government sought to coax the States by making a new offer. If they would build fortifications, and make other public improvements, the amount expended would be credited to them against the

<sup>1</sup> Act, May 31, 1794, 3 Cong., first session, chap. 37.

<sup>2</sup> Act, Aug 5, 1790, 1 Cong., second session, chap. 38, sect. 7: in other words, should be funded like the second portion of the public debt.



balances due to the government. A little over \$200,000 was spent by New York in fortifying its chief harbor, which was duly credited. The other debtor States did nothing, and finally all were relieved of their indebtedness to the government by Congress.

Thus the proposals of the government had been accepted. A more economical system might have been devised; but, crude as this was, the hope of saving the national life was immensely strengthened, while older nations beheld our exhibition of creative political energy with wonder. The darkest cloud in the firmament of the Union had disappeared. The restoration of the public credit was the beginning of a new era. The long, dreary period of neglected and broken promises was past.

## CHAPTER IV.

## PAYMENT OF THE REVOLUTIONARY DEBT.

HAMILTON was no believer in the doctrine that a national debt is a national blessing. As soon as the debt was funded, he began to mature measures for paying it. The spirit of repudiation was then unknown; and the people generally favored the adoption of such a policy as would effectually remove the burden of public debt at no distant day.

By the funding-law \$600,000 of annual revenue were reserved for paying the expenses of the government; and the residue of the income arising from duties on imports and tonnage was appropriated to paying the interest on foreign loans, and on future loans obtained for discharging the interest on prior foreign ones, and also the principal. The income thus accruing was to continue appropriated in the manner prescribed, until all the loans made by virtue of that law were fully satisfied.<sup>1</sup>

<sup>1</sup> There was a writer who proposed that the debt should be paid "without oppressing the citizens," simply by taxing the vices prevailing at that time, the chief of which were perjury, drunkenness, blasphemy, slander, and infidelity. "Would it not, then, be worthy of our consideration, and that of the different Legislatures, to inquire whether a moderate tax upon every particular vice would not be more conducive to our welfare than the cramping of our foreign and domestic trade? Such a tax must, of



As another loan must be made to pay a portion of the foreign debt then due, and the arrears of interest on the same, the President was authorized to borrow not more than \$12,000,000 to discharge those obligations, and to pay the foreign debt, if this could be advantageously done. He was clothed with the broad authority to make such other contracts respecting the debt as should be for the interest of the States. But any loan made by him must be payable within fifteen years.

By the same law, the public revenues derived from imports and tonnage were "pledged and appropriated for the payment of the interest on the stock" issued by the government, except the portions set apart for the purpose previously described. That such revenues might be "inviolably applied," and never "diverted to any other purpose," the secretary of the treasury was required to keep an account of "the receipts and disposition thereof, separate and distinct from the product of any other duties, imports, excises, and taxes." The faith of the government was also pledged to provide and appropriate such additional necessity, yield a vast revenue, and prove a most infallible scheme for our prosperity."

The writer then proceeds to show how much might be collected from a moderate tax on perjury, which he took "to be the most important and particular staple vice." Drunkenness "I would only tax sixpence," "as it might be prejudicial to trade, as well as the revenue, to discourage it." "Swearing would be a most universal benefit towards augmenting these funds;" though he thought that military men would object, and claim an exemption from it. "Conjugal infidelity, as the world goes at present, would furnish the public with a large sum, even at a very moderate tax; for it is now made an essential part of the polite gentleman's character, and he that has prevailed on the greatest number proportionally rises in reputation." Luxuries were also to be heavily taxed, but he did not favor the taxation of bachelors.—*Am. Museum*, vol. vi. p. 286.

tional and permanent funds as might be required for paying the interest on its stock. For the payment of the principal of the public indebtedness, the proceeds of the sales of the public lands were pledged.<sup>1</sup>

Subsequently, during the same session, a second revenue Act was passed, in which Congress enacted that the several duties imposed thereby should be collected and paid, until the debts and purposes for which they were pledged and appropriated were fully discharged; the government, however, reserving the right to substitute other taxes of equal value. Congress further enacted that all surplus revenue should be applied to the purchase of the debt of the United States, "at its market-price, if not exceeding the par or true value thereof," and that the purchase should be made under the direction of the President, the chief justice, the secretary of state, the secretary of the treasury, and the attorney-general. Only a single specific direction was imposed in making purchases; namely, they were to be made openly, and with due regard to the equal benefit of the several States. By the same Act the President was authorized to borrow \$2,000,000, "at an interest not exceeding five per cent," for the purpose of purchasing the domestic debt. The public debt thus bought by the government was to be regarded as bearing interest, just as though it were owned by an individual; and a portion, "not exceeding the rate of eight per cent per annum on account both of principal and interest," was to be applied "towards the repayment of the two millions of dollars so to be borrowed."<sup>2</sup> The

<sup>1</sup> Act, Aug. 4, 1790, 1 Cong., second session, chap. 34, sects. 1, 2, 20-22.

<sup>2</sup> Act, Aug. 12, 1790, 1 Cong., second session, chap. 47.

object of providing the means to buy the debt so early, even though obtainable only by borrowing, was to enhance the value of the debt, and restore the credit of the nation.<sup>1</sup>

More complete regulations were subsequently adopted for redeeming the public debt. The first of these was in May, 1792.<sup>2</sup> The president of the Senate, the chief

<sup>1</sup> Hamilton, in his Report on Public Credit (Jan. 14, 1790), remarked, "This measure, which would be, in the opinion of the secretary, highly dishonorable to the government if it were to precede a provision for funding the debt, would become altogether unexceptionable after that had been made. Its effect would be in favor of the public creditors, as it would tend to raise the value of stock; and all the difference between its true value and the actual price would be so much clear gain to the public. The payment of foreign interest on the capital to be borrowed for this purpose, should that be a necessary consequence, would not, in the judgment of the secretary, be a good objection to the measure. The saving by the operation would be itself a sufficient indemnity; and the employment of that capital, in a country situated like this, would much more than compensate for it. Besides, if the government does not undertake this operation, the same inconvenience which the objection in question supposes, would happen in another way, with a circumstance of aggravation. As long, at least, as the debt shall continue below its proper value, it will be an object of speculation to foreigners, who will not only receive the interest upon what they purchase, and remit it abroad, as in the case of the loan, but will reap the additional profit of the difference in value. By the government's entering into competition with them, it will not only reap a part of the profit itself, but will contract the extent, and lessen the extra profit, of foreign purchasers. That competition will accelerate the rise of stock; and whatever greater rate this obliges foreigners to pay for what they purchase is so much clear saving to the nation. In the opinion of the secretary, and contrary to an idea which is not without patrons, it ought to be the policy of the government to raise the value of stock to its true standard as fast as possible. When it arrives to that point, foreign speculations (which till then must be deemed pernicious, further than as they serve to bring it to that point) will become beneficial. Their money, laid out in this country upon our agriculture, commerce, and manufactures, will produce much more to us than the income they will receive from it."

<sup>2</sup> 2 Cong., first session, chap. 38.

justice, and the several members of the cabinet, were appointed commissioners to purchase the public debt at its market-price, if not exceeding the par or true value; and the interest on any portion redeemed, and the surplus of any sum appropriated for the payment of interest, were "appropriated and pledged firmly and inviolably" for the purchase and redemption of the debt. The income thus derived was to be applied, under the direction of the commissioners, with the approval of the President, in the following manner: first, to the purchase of the several species of stock at their respective market-prices, not exceeding the par or true value, and as nearly as might be in equal proportions, until the annual amount of such funds, together with any other provisions which might be made by law, should be equal to two per cent of the whole amount of the outstanding funded stock, bearing a present interest of six per cent; secondly, to the redemption of the last-mentioned stock, until the whole amount should be redeemed; and lastly, after such redemption, to the purchase, at its market-value, of any other stock. All future purchases were to be at the lowest price in open market, or by receiving sealed proposals, which were to be opened by the commissioners. The Act closed by requiring them to render a quarterly account for settlement, like any other public account, and also a full and exact report of their proceedings to Congress, within the first fourteen days of each session.

Congress neglected no longer to provide for paying the foreign officers who had served in the armies of the United States during the Revolution. The amount due, with the arrears of interest to the close of 1791, was \$220,646.81.



In 1784 the Congress of the Confederation directed that interest should be annually paid to them. The 29th of August, 1788, the payment of interest was ordered to the end of that year. Then the government ceased to pay, and Hamilton suggested the expediency of discharging the entire debt, for the reason that it bore six per cent interest, payable abroad, and something could be saved by discharging it. He also said there were other reasons, "of a nature both weighty and delicate, and too obvious to need a specification." Accordingly, the President was authorized to discharge the principal and interest of this debt from the twelve-million loan previously described, if the whole amount were not needed to fulfil the purpose specified in the Act authorizing it.<sup>1</sup> The debt was not entirely paid until 1828.

These measures did not go far in providing effectively for the discharge of the funded indebtedness. Congress directed Hamilton to report a plan for redeeming that portion of the public debt which the government had reserved the right to redeem; and in December he presented to the House his views on the subject. The surplus of the present revenues, he thought, should be applied to such casual exigencies as might from time to time occur, to occasional purchases of the debt, to the payment of interest on any balances which might be found due to particular States on the general settlement of accounts, and finally to the payment of interest on the deferred part of the debt when the period arrived. Relinquishing the idea of an immediate application of the present revenues to the object in view, Hamilton proceeded to

<sup>1</sup> 2 Cong., first session, chap. 38, sect. 5.



consider what other modes were open for adoption by Congress.

Loans from time to time, equal to the sums annually redeemable, and bottomed on the same revenues as were then appropriated to pay the interest thereon, was an expedient which he declared might be advantageously employed. As money could probably be borrowed at lower rates, a material saving would result: this expedient, therefore, should not be neglected.

But Hamilton was satisfied with no such slow process of discharging the debt. He did not believe in binding it around posterity. Accordingly, he advised the establishment of additional revenues. Assuming these as the basis of a plan of redemption, he proceeds to inquire in what way they should be enlarged, and offers three propositions:—

1. Shall a revenue be immediately constituted, equal to the full sum which may at present be redeemed, according to the terms of the contract?

2. Shall a revenue be immediately constituted, equal only to the interest of the sum to be redeemed in each year, coupling with this operation an annual loan commensurate with such sum? or,

3. Shall a revenue be constituted each year, so much exceeding the interest of the sum to be redeemed as to be sufficient, within a short, definite term of time, to discharge the principal itself; coupling with this operation, also, an annual loan equal to the sum to be annually redeemed, and appropriating the revenue created to its discharge within the term which shall have been predetermined?

The last inquiry contained the plan which accorded most perfectly with the view of the secretary. In applying it, he maintained that two points ought to be accomplished: first, the complete discharge of the sums annually redeemable within the period prefixed, and the reimbursement within the same period of all auxiliary loans that might be made for that purpose; secondly, the creation, by the expiration of that period, of "a clear, annual fund, competent to the future redemption of the debt to the extent of the right reserved."<sup>1</sup>

The period to which the plan ought to refer, so he suggested, was the 1st of January, 1802, when the first payment on account of the principal of the deferred debt could be rightfully made. Hamilton then shows how the "annual fund" might be raised for each year until 1802; but Congress did not see fit to adopt the plan.

<sup>1</sup> Works, vol. iii. p. 338. Premising that the sum to be redeemed the first year, of the six-per-cent stock bearing a present interest, was computed at \$550,000, Hamilton proposed to constitute an annual fund at that session equal to \$103,199.06, which should begin to accrue from the 1st of January, 1793. "Let the sum of \$550,000 be borrowed upon the credit of this annuity, reimbursable within five years, that is, by the 1st of January, 1799; the sum to be borrowed to be applied, on the 1st of January, 1794, to the first payment on account of the principal of the debt. The proposed annuity will reimburse the sum borrowed, with interest, by the 1st of January, 1799, and will thenceforth be free for any further application." Hamilton proposed to raise the means for constituting this first annuity from two sources: viz., the annual surplus of the dividend on the stock held by the government in the Bank of the United States beyond the interest to be paid out upon the money borrowed to pay for the same, which surplus was estimated at \$60,000; and a tax on horses kept for riding, or drawing carriages. The product of this tax was estimated at \$43,199.06. Hamilton proceeds to fix the sums to be redeemed each year, and what annuities are required to be raised, in a manner similar to the process above described.

It was doubtless too elaborate for Congress: indeed, it was a kind of Eleusinian mystery, lacking simplicity and originality. It was strongly flavored with the English ideas of finance prevailing at that time, and which long since were thrown away.

In his final report on the subject, Hamilton sets forth the steps already taken by Congress for redeeming the debt, and offers some other suggestions, which were embodied in a law passed early in 1795.<sup>1</sup>

By this enactment the commissioners of the sinking-fund were empowered, with the approval of the President, to borrow a sum not exceeding one million dollars annually, to pay the interest accruing on the public debt, in anticipation of the revenue appropriated for that purpose. A loan was to be opened at the treasury for raising money to discharge the foreign debt. All duties on merchandise and the tonnage of vessels, set free by the foregoing operations, were pledged for the payment of the interest and principal of the debt. Some duties which had been temporarily laid were to be permanent. The sinking-fund was enlarged, and the powers of the sinking-fund commissioners were extended, and more minutely defined.

Two per cent of the principal of the six-per-cent stocks was to be paid annually, and a similar payment, after the year 1801, of the principal of the stock, which at that time would begin to bear interest. All priorities previously established in the appropriations for interest on the public debt were to cease after the year 1796, with respect to all creditors not expressing their dissent in

<sup>1</sup> Works, vol. iii. p. 456. Act, March 31, 3 Cong., second session, chap. 45.

writing before that time. The law also provided that all loan-office and final certificates and indents of interest which should be outstanding the 1st of January, 1797, might be presented at the office of the auditor of the treasury for the purpose of exchanging them for other certificates of equivalent value and tenor, or for registering them; in which case, of course, they were to be returned. If the holders did neither thing, they were to be barred from "settlement of allowance." Unexpended appropriations, after the period of two years, except those for the payment of interest on the funded debt, or for the payment of the interest or principal of any loan, were to form a new account, which was to be called "the surplus fund."

Such were the leading provisions of the last of a series of fourteen Acts relating to the funding and redemption of the public debt, which were passed during Hamilton's administration of the treasury department. The next year more specific regulations were established for paying the interest and principal of the debt. Dividends were to be paid the last days of March, June, and September, until 1818, "at the rate of one and one-half per centum upon the original capital," and a final dividend for the balance, on the last day of that year.

The deferred stock was to be paid in the same manner. The time for paying dividends thereon was to begin in 1801, and end in 1824. A similar provision was made for paying the balance due to the States.<sup>1</sup>

When Gallatin succeeded to the treasuryship, another law was enacted, relating to the payment of the debt, which

<sup>1</sup> Act, April 28, 1796, 4 Cong., first session, chap. 16.



is the last requiring extended consideration. Nearly ten years had passed since the commencement of the funding operations, and the defects in the measures adopted were clearly seen.

The Committee of Ways and Means, of which Randolph was chairman, declared that no effectual provision for the final redemption "of the whole present debt of the United States did at that time exist. To the measures which had already been adopted, their complexity formed an objection inferior only to their insufficiency." These criticisms, though containing some truth, were colored by party temper. Another political party had obtained control of the government, and the leaders manifested a strong disposition to shrivel the importance of the work of their opponents. Randolph's report was the product of a letter written by Gallatin, in whom was embodied most of the financial wisdom possessed by his party.

Gallatin declared that the appropriations made subsequently to the 3d of March, 1795, which were not vested in the commissioners of the sinking-fund, did not constitute a contract with the creditors, and consequently were not permanently inviolable. Like any other ordinary law, it might be repealed without a breach of faith, and afforded no security, therefore, for the eventual discharge of the debt. The surpluses of the revenue, though vested in the commissioners of the sinking-fund, were substantially liable to the same objection; for as only the surplus of revenue, beyond all the appropriations charged to it, was applicable to the payment of the debt, nothing more was necessary to defeat that provision than large appropriations for other objects.



Not only were the provisions relating to the payment of the public debt difficult to be executed, uncertain in their amount, dependent on the will of the Legislature, and inadequate to the object, but it was ultimately a matter of discretion with the secretary of the treasury to carry them into effect, even in the case of surpluses vested in the sinking-fund.

Gallatin then sets forth in the clearest light how a secretary who was so disposed might defeat, under the existing laws, the intention of Congress altogether, with respect to paying the public debt. "All payments must be made out of moneys in the treasury. An appropriation authorizing and directing the annual payment of a certain sum, as in the case of the eight-per-cent annuity on the six-per-cent and defined stocks, must be satisfied each year out of those moneys. An appropriation designating for a certain object all moneys arising from a certain source, as in the case of the proceeds of the Western lands, and of old debts, is equally efficient, as those moneys cannot be applied to any other object. But the other appropriations for the redemption of the public debt are neither accompanied with an imperative clause directing their application, nor bottomed on a distinct source of revenue<sup>1</sup> solely applicable to that object; and they rest, in common with all the appropriations for the civil, military, and naval expenses of government, partly on moneys in the treasury, and principally on the outstanding uncollected revenue. The aggregate of all these several kinds of appropriations uniformly exceeds the moneys in the treasury; and it

<sup>1</sup> The additional duties of 1797 excepted.

remains always optional with the secretary of the treasury which of them he will satisfy; and, where the law does not direct in express terms the payment of a debt, it is left to his discretion whether he shall pay it or not."

The object of the law of March 3, 1795, was to make an efficient provision for the gradual reimbursement of the six-per-cent deferred stocks by paying eight per cent a year, and to pave the way for a future though distant payment of the foreign debt by giving to the sinking-fund the unascertained resources which might be derived from the sale of lands and surpluses of revenue, and, after the respective redemption of the six-per-cent and deferred stocks in 1818 and 1824, a sum equal to the interest accruing on the debt thus redeemed.

This law, Gallatin thought, did not provide efficiently for the discharge of the foreign debt, especially as the Dutch creditors had rejected the proposal of converting the amount due to them into a domestic debt. Moreover, the appropriations made since 1795 had proved altogether inefficient, and had not "produced any other effect than that of rendering still more complex a system in its nature sufficiently intricate." It was also important to discharge the temporary loans to the Bank of the United States as soon as the funds could be spared from the treasury. To attain these ends, Gallatin contended, nothing more was necessary than to provide as adequately as the law of March, 1795, had provided for the payment of an eight-per-cent annuity on the six-per-cent and deferred stocks by vesting in the commissioners of the sinking-fund, beside the other funds already vested in

them, such an annual sum, to be paid from the duties on tonnage and merchandise, as would be equal to the proposed redemption, and by directing the commissioners to apply the same in that manner. This provision, he declared, would be determinate in amount, simple in execution, and certain in effect: it would neither derange nor alter a single existing appropriation or payment in relation to the sinking-fund for which the public faith was pledged, but would leave to all the other uncertain funds of that fund, and especially to the surpluses of the revenue, their legitimate operation.<sup>1</sup>

Congress adopted the plan proposed. The duties on merchandise and tonnage, together with other money beside the surpluses of revenue then constituting the sinking-fund, or which should accrue to it by virtue of any former law, and also the sums annually required to discharge the interest and charges accruing on the debt, including temporary loans previously obtained, and future ones for reimbursing or redeeming any instalments or parts of the principal of the debt, as would amount to an annual sum of \$7,300,000, were yearly appropriated to the sinking-fund. In proposing this sum, Gallatin was not guided by any abstract or arbitrary principle, but by the amount needed for the present year and the two following years in order to meet the payments on the Dutch debt. This appropriation the secretary of the treasury was positively enjoined to pay annually to the commissioners of the sinking-fund. It was vested in them in the same way as other money had been; and they were required to apply it in paying interest and

<sup>1</sup> Randolph's Report, April 9, 1802, 1 Finance, p. 746.

charges, and reimbursing the principal of the debt. The commissioners were authorized to borrow money to pay the Dutch debt, Congress prescribing with unusual minuteness the conditions of the loan.<sup>1</sup> The next year \$700,000 were added to the sinking-fund in consequence of the purchase of Louisiana. Although Gallatin was exceedingly desirous of reducing the debt, he favored this purchase; for the territory was not only very valuable, but a question was forever settled which otherwise might cause national disquietude.

Having traced the formal expression of the government concerning the payment of its debt, let us see how its determination was fulfilled.

When the first funding Act was passed, Congress inaugurated, as we have seen, the policy of appropriating certain revenues for the discharge of several specified obligations, established a priority in their payment, and directed the secretary of the treasury to keep a separate account of the receipt and disposal of the revenues thus appropriated. To keep such accounts was not an easy task; and when Congress appropriated other revenues in the same way, which was done on several occasions afterward, the difficulty of keeping each account was greatly increased. The policy of thus appropriating particular revenues for special purposes has found many opponents and defenders.

Hamilton wished to incorporate into the system of national credit, as a fundamental maxim, that the creation of debt should always be accompanied with the means of extinguishment. This he regarded as the true secret

<sup>1</sup> Act, April 29, 1802, 7 Cong., first session, chap. 32.



for rendering public credit immortal. Congress was persuaded by him to adopt such a policy. It was a repetition of the policy established by the papal government more than six centuries ago: But the action of Congress was not uniform. On several occasions Congress, when raising revenues, pledged them for various purposes, either special or general: in other cases, they were not appropriated in the Act creating them, but became a general fund from which the secretary could draw to meet other engagements.

The use of "the surplus fund" we have already described. Of course, moneys falling into it were unappropriated, and did not belong to the commissioners of the sinking-fund. In 1802 Congress provided, that, after the reimbursement of the greater part of the debt, any balance of the sums annually appropriated for the payment of the debt, remaining unexpended for six months after the close of the calendar year, should be carried to the surplus fund. With the exception of the small amount falling into this fund, the total income of the government, beside the expense of maintaining it, was appropriated to redeeming its funded indebtedness, or new obligations constantly incurred.

At first, progress in extinguishing the debt was slow. The interest was promptly paid, either from revenues derived by taxation, or from the proceeds of loans authorized for that purpose. Payments were made at thirteen places; and the making of them was "an operation as difficult and complicated as it was new." It was necessary to lodge for some time previous to the expiration of each quarter, at several of the loan-offices,



drafts of the treasurer for the sums estimated to be needed at those places, "with blanks for the direction," and with liberty to the respective officers to dispose of them on different places, as the demand accrued. Hamilton had two ends in view in establishing this method of paying interest, — one was to avoid large accumulations at particular points; and the other was to facilitate the placing of the requisite sums where they were wanted, without the transportation of specie. Says Hamilton in one of his communications to Congress, "The allowing of the drafts to be disposed of on several places gives larger scope to a demand for them, and renders them more easily salable."

By direction of the President, Hamilton negotiated six loans with parties in Holland during the years 1790, 1791, and 1792, and applied the money in the manner prescribed by Congress. At first Hamilton sought to negotiate separate loans, based on the two laws authorizing them; but he found that money-lenders were accustomed to lend on the general credit of the government borrowing, "with a sort of general pledge of its revenues and resources," and not by virtue of any particular law. As such a thing was a novelty which might lead to hesitation and embarrassment "in the negotiation of the loans and in the application of their proceeds," Hamilton abandoned his original intention, and "concluded to let the loans proceed indiscriminately upon both Acts."<sup>1</sup>

Instead of keeping an account of these funds separately, and applying them as required by the two laws

<sup>1</sup> Communication to House, on Loans, Feb. 13, 1793, Works, vol. iii. p. 371.

under which they were obtained, they were added to the surplus fund, which the secretary had a right to apply in a manner different from the proceeds of the foreign loans. The former fund he could rightfully apply toward the payment of interest on the domestic debt, but not the foreign money. He did, however, use a small portion of it in this way; yet the transaction, which gave rise to a heated investigation by Congress, was sustained by a very large majority.<sup>1</sup>

When investigating this subject, it was supposed that the surplus, as well as the proceeds, of the foreign fund, was kept separately from "the common mass of the moneys appearing from time to time in the treasury." Such had not been the custom of the department. All moneys, from every source, were placed there, and constituted "an aggregate, subject to the dispositions prescribed by law." The separation was made only when the money was applied to various purposes: that employed in the sinking-fund, for example, was separated when taken for actual investment. The only exception was that portion of the sinking-fund created by the interest of the debt purchased.

With the funds thus derived from abroad, a portion of the debt due to the foreign officers was discharged; also the Spanish debt, the arrears of interest on the foreign debt, and some portion of the principal, as well as interest, of the domestic debt. The gross principal of the Holland loans authorized by the two Acts of the 4th and 12th of August, 1790, received to the end of 1793, was \$8,200,000. The principal of the foreign debt, which had

<sup>1</sup> Baldwin's Report, May 22, 1794.

been discharged by these loans, amounted to \$3,757,614.64 ; France receiving \$3,583,603.64, and Spain \$174,011. From the same fund had been paid for arrears of interest on the French and Spanish debt, to the end of 1790, \$1,963,971.50. The foreign officers had received of the principal due to them \$50,049.42, and as interest \$7,305.84. The residue of the loans had been applied in other ways, or was reserved for future application.

Only a short period elapsed before embarrassments arose respecting the payment of interest on the loans contracted abroad. There was but little specie in the country ; while shipments of merchandise were often objectionable and hazardous, and the exchanges were so deranged as to render this an expensive way of making settlements. To obviate these difficulties, the conversion of the foreign into a domestic debt was authorized. During the spring and summer of 1795, Wolcott, who had succeeded Hamilton as secretary of the treasury, sought to effect such a conversion, and was successful in converting the French debt. The state of affairs in France, and the advantage of having an active capital in the United States for the purchase of provisions and stores, induced the government to accept the proposal. The balance of the French debt was ascertained, and subscribed to the new loan, and stock was issued therefor. These stocks were known as the five and a half and four and a half per cents of 1795, and amounted respectively to \$1,848,900 and \$3,176,000. As the Spanish debt had been already extinguished, the task remained for Wolcott to execute, if possible, a similar arrangement with the creditors in Holland.

The moment was unfavorable for executing the scheme. War was raging in Europe ; and many European nations were indebted to Dutch capitalists, and some of them had failed to fulfil their obligations. Communication with England had been severed, and a general and unprecedented derangement existed in the Dutch finances and exchange. The Act, too, authorizing the operation, was imperfect. The additional interest prescribed was not enough to counterbalance the loss by exchange, the difficulty of transfer, and, above all, the redeemable feature of the proposed loan. Under these circumstances it was found impossible to convert the remainder of the foreign indebtedness into a domestic debt.

The same causes also operated to prevent the punctual payment of the instalment due on the old loan in February, 1795. As a preferable remittance to money, Hamilton purchased of the Bank of the United States \$500,000 of six-per-cent government stocks, which he sent to brokers in Amsterdam to sell, and with the proceeds to pay the next instalment of the debt. In April the additional sum of \$160,000 was purchased by Wolcott, and remitted. It was expected that the stock would be sold at par, including interest, or that the instalment would be continued by a new contract. Both calculations proved erroneous. Not only could no re-loans be made on the terms proposed, but the bank-stock could not be sold except at a ruinous sacrifice. As the cause of delay in discharging the instalment was well known, and the interest was duly paid, the public credit did not suffer ; but the fact proved how unwise Congress had been in restricting the commissioners of the sinking-fund with



respect to the terms of the loan, without providing other ways in case the loan could not be obtained.<sup>1</sup>

The embarrassment of the treasury continued during the summer of 1796, from the operation of the causes previously mentioned. Of the loan of \$5,000,000, authorized in May, and known as the six-per-cent loan of 1796, only \$80,000 were subscribed. The proceeds were to be applied in payment of the temporary loans due to the bank. Unable to borrow this amount, the commissioners of the sinking-fund were obliged to sell a portion of the bank stock owned by the government, to reimburse the bank. The Act granting this authority to them was denounced by Hamilton as a fatal invasion of the system for paying the debt. Wolcott shared the same opinion; and he opposed doing what the law permitted until opposition was seen to be useless.

The government necessarily incurred so many extraordinary expenditures, that for several years there was no reduction of the debt. It was needful, therefore, to increase the revenues, if debt-paying was to begin. In reporting the estimates for the year 1800, the committee of ways and means discussed the propriety of providing permanent revenues, not only to pay the interest on the loan of \$3,500,000, which they had recommended Congress to make in order to pay the bank, but also for "the gradual and timely extinguishment of the principal,"—a policy, which, in their opinion, ought to be invariably followed as the only means of avoiding that constant accumulation of debt which was the great evil of the funding-system.

<sup>1</sup> Gibbs's Adm., vol. i. p. 184.



Beside providing revenues to pay the interest and principal of the debt just mentioned, there was another loan of \$5,000,000, for the discharge of which Congress must provide. The interest on these two loans was \$680,000. The committee proposed to raise enough revenue to pay this amount, and also two per cent of the principal, which would require \$170,000 more. This annuity would extinguish the debt in twenty-four years, — the term adopted in the original funding-bill with reference to the six-per cent stock. As the terms of the last loan, however, prevented an application of the annuity for ten years to the payment of it, the committee proposed the applying of the annuity in “the purchase of the public debt in general by way of sinking-fund.” The committee added, that every consideration of sound policy, and the best established principles of financial economy, were in favor of using it.

The ways and means recommended by Wolcott were an augmentation of the duties on wines, an increase of two and a half per cent on those articles which paid an *ad valorem* duty of ten per cent, and a new arrangement respecting drawbacks. The effect would be to impose a tax of fifteen to eighteen per cent on the whole amount. The increase on wines, and the two and a half per cent addition to the articles bearing an *ad valorem* duty, were to be perpetual: the tax on drawbacks was to be temporary, lasting no longer than the continuance of the threatened war with Great Britain. The amount of revenue expected from these sources was \$900,000. Wolcott’s recommendations were considered by the committee of ways and means, and,

with a slight modification in taxing drawbacks, were adopted.<sup>1</sup>

Beside the debt bequeathed by the former government, the expenditures were increased in consequence of war with the Indians, the whiskey insurrection, the Barbary difficulty, the unprovoked aggressions of France, and other unusual occurrences. The party opposed to the administration contended there had been no reduction of the debt, but rather an increase; and the subject expanded into a warm and somewhat protracted controversy. A true answer could not be given until the amount of the former indebtedness was determined. Say a committee who considered the matter in May, 1800, "In ascertaining the amount of the old debt, two different principles have been taken by those who have made their calculations on this subject. The first has been to include only the interest upon the debt to the close of the year 1789, as the nearest convenient period to the day when the government commenced its operations, and, after deducting from the aggregate of the debt the amount of funds then in the power of the government, to consider the balance as the amount of old debt. The second principle has been to take the amount of debt as the same has been liquidated and funded under various Acts of Congress, and, after deducting therefrom the funds acquired or possessed by the government at the close of the year 1790, to consider the balance as constituting the true amount of old debt. The difference between these principles consists in this, — by the last mode of computation, the inter-

<sup>1</sup> Gibbs's Adm., vol. ii. p. 329. Harper's Report, April 30, 1800, 1 Finance, p. 642.

est which accumulated upon the debt subsequent to the close of the year 1789, and until the debt was funded and provided for by law, is considered as a part of the old debt, whereas, by the first mode of computation, that interest is totally excluded."<sup>1</sup>

In looking from another side, perhaps the reader may see into the subject with greater clearness. The total debt of the old Confederation funded was \$76,781,353.14, of which amount \$3,215,575.37 was reimbursed prior to 1800. The amount paid but not funded, of old debt, was \$15,927.13; on the other hand, \$7,212,700 of new funded debt was created. The amount of property, including cash, received from the old government, was \$99,826.35. Not considering the floating and temporary indebtedness, and the cash in the treasury, and uncollected revenues, the amount of permanent indebtedness incurred by the new government exceeded by more than four millions the indebtedness of the old government which had been discharged.

Not until Gallatin became secretary of the treasury was there any considerable reduction of the public debt. He regarded the discharge of it as "the principal object" in bringing him into office. Nor did he, during his long administration of the treasury department, ever manifest less interest in accomplishing this end than in the beginning.

The embarrassment which Hamilton and Wolcott had experienced in procuring remittances for Holland continued during the early years of Gallatin's administration. Within the first six months of the year, 4,433,830

<sup>1</sup> Griswold's Report on the Public Debt, May 8, 1800, 1 Finance, p. 657.

guilders were payable; and trade had shrunk so heavily between the United States and Holland, that it was impracticable to obtain bills on the latter country for that amount. The rate of exchange was forty-one cents per guilder; and any attempt to procure a large amount would surely cause an advance. A company in New York offered to remit the whole amount at forty-three cents per guilder; and Alexander Baring, at two cents per guilder less, provided the government would sell to him 2,220 shares of stock of the United-States bank for \$580 per share, or at forty-five per cent advance. This was the balance of bank-stock owned by the government. The offer was accepted, and the sum received was applied on the debt due to the bank; while Baring simultaneously sold to the treasury an equal sum in bills on Holland, at forty-one cents per guilder.

“As the dividend usually received on the bank-stock sold, and the annual interest payable on the debt due to the bank, were nearly equal, the July half-yearly dividend on the stock was, in fact, the premium paid for the purpose of effecting the remittance.” Thus the government, without raising the price of exchange, obtained the whole amount needed to pay the sum due in Holland until September, 1803, at which time the difficulty in making remittances had passed away.

Gallatin was able to reduce the debt from the outset, not by introducing new economies, or by increasing taxes, but simply for the reason that the unusual and extraordinary expenditures of the government had ceased. In 1803, however, Louisiana was purchased for \$15,000,000. Of this sum, \$11,250,000 were raised by issuing a six-



per-cent stock, payable at the treasury in four instalments. The first instalment was to be paid in 1818, and the last in 1821. The remainder of the purchase-money consisted of payments to American citizens having claims on the government of France, which, however, were not to exceed \$3,750,000. Gallatin paid this sum from the annual revenues, so that the permanent debt consisted only of the stock created. The Louisiana purchase, therefore, increased the debt to \$85,349,744.35, — the highest point it ever reached until the next war with Great Britain.<sup>1</sup>

The reduction of the debt thereafter was rapid. Gallatin announced in 1806, that as the only portions of the public debt which the government had a right to pay, during the year 1807, consisted of the annual reimbursement of the six-per-cent and deferred stocks, amounting to \$176,000, it was not practicable, unless a purchase could be effected within the limitations prescribed by law, to apply that year the entire annual appropriation. Although the old six-per-cent and deferred stocks<sup>2</sup> were

<sup>1</sup> In March, Congress directed that an inquiry be made of the commissioners of the sinking-fund, concerning the application of the money received by them. The inquiry was occasioned by a variance between the reports of the secretary of the treasury and that of the sinking-fund commissioners, which, happily, was satisfactorily explained. It contained a very good account of the proceedings of the commissioners, and of their construction of the law appropriating \$7,000,000 annually to the payment of the interest and principal of the public debt.

<sup>2</sup> The deferred stock was that which began to bear interest in 1800. At this time (1806) the annuity on every hundred dollars of the six-per-cent stock was \$30.16, making, in the aggregate, \$8,500,000, and on every hundred dollars of the deferred stock, \$11.30, making \$1,540,000. — *Finance*, p. 213.



still regarded as six-per-cent stocks, both, in truth, were an annuity of eight per cent on the original nominal amount, which, extinguishing the principal by degrees, would cease for the old six-per-cent stock in 1818, and for the deferred in 1824. A certificate of six-per-cent stock, of one hundred dollars nominal, was considered the 1st of January, 1806, as equal to \$69.84 real six-per-cent stock, because \$30.16 of the principal had been discharged by the annual reimbursement of eight per cent; instead of which, it was an annuity of eight dollars for twelve years and somewhat less than nine months. In the same manner, a certificate of deferred stock, of one hundred dollars nominal, was regarded as equal to \$78.70 real six-per-cent stock; instead of which, it was, strictly speaking, an annuity of eight dollars for eighteen years and somewhat less than nine months. Gallatin now proposed to the committee of ways and means,<sup>1</sup> that the government offer to exchange a common six-per-cent stock, equal in amount to the unredeemed sum of the present stocks, and redeemable at the pleasure of the United States. They were to be reimbursed on a single day, the government giving a reasonable notice of its intention. Gallatin then set forth the advantages to the government and the public from adopting the plan; nor did he experience any difficulty in convincing the committee of its practicability. A bill embodying his proposal was presented and passed, and a very considerable portion of the old six-per-cent and deferred stocks was converted.<sup>2</sup>

<sup>1</sup> Jan. 20, 1806, 2 Finance, p. 212.

<sup>2</sup> Act, Feb. 11, 1807, 9 Cong., first session, chap. 12.

In January, 1809, the following exchanges had been effected:—

	NOMINAL AMOUNT.
Certificates of old six-per-cent stock . . . . .	\$7,435,767 61
Certificates of deferred six-per-cent stock . . . . .	1,940,672 01
In lieu of which, certificates of exchanged stock for the unredeemed amount of the certificates of old six-per-cent and deferred stocks were issued, amounting to . . . . .	6,294,051 12
Certificates of three-per-cent stock were surrendered, to the amount of . . . . .	2,861,309 15
In lieu of which, certificates of converted stock were issued, amounting to . . . . .	1,859,850 70

So glibly did the reduction of the public debt proceed, that the salt-tax, which yielded about half a million a year, was abandoned in 1806; and both the President and Gallatin voiced their oft-recurring dream of founding a splendid system of higher education for the people, and of constructing a vast net-work of improved ways of communication through all parts of the country. Gallatin spent a year in working out the scheme, and presented it to Congress in 1808.

But this glorious vision, so joyfully beheld, and so dearly cherished, was soon to disappear. The rumbling of war was heard in the distance. Gallatin's annual report for 1807 contains some weighty words which show clearly enough that he was thinking of the dark possibilities of the future. "A previous accumulation of treasure," he remarks, "in time of peace, ought, in a great degree, defray the extraordinary expenses of war, and diminish the necessity of other loans or additional taxes. It would provide, during periods of prosperity, for

those adverse events to which every nation is exposed, instead of increasing the burdens of the people at a time when they are least able to bear them, or of impairing, by anticipations, the resources of ensuing generations. And the public moneys of the United States not being locked up, and withdrawn from the general circulation, but, on the contrary, deposited in banks, and continuing to form a part of the circulating medium, the most formidable objection, which has, nevertheless, been at times adopted with considerable success in other countries, is thereby altogether removed." Gallatin then considered the utility of renewing the bank charter; nor did he shrink from tracing the disastrous consequences to the revenue, should "the United States, contrary to their expectation and desire, be involved in war."

It is true, that, in his report for the year 1808, Gallatin was able to announce a larger income than ever, exceeding \$16,000,000. But an embargo which greatly diminished imports was in operation, and the receipts into the treasury had been largely derived from duties accruing the previous year, and from the diminution of payments in the way of drawbacks. The following year the expenditures, excluding payments of the principal of the debt, exceeded the revenue from all sources nearly \$1,300,000. There was a surplus, however, for the year 1810, of \$5,000,000. This was the effect of the system of open trade, which was established for a short interval during the year. But when the embargo was revived, gloom settled over the land, and the revenues rapidly shrank. Notwithstanding these events, Gallatin was able, the next year, to pay \$5,163,376 of the debt. More than half this

sum was borrowed of the United-States bank; and the actual decrease of the debt, during the year, was only \$2,413,376.<sup>1</sup>

During these eleven years, \$46,022,810 of the funded debt had been paid, and \$45,154,189 remained, which included \$11,250,000 incurred for the purchase of Louisiana.

The disposable national revenue, or that portion which might be applied in defraying the annual national expenditure, consisted only of the surplus of the gross amount of revenue collected, beyond the amount necessary for paying the interest on the public debt. To diminish that interest, therefore, was to increase the amount for defraying the other annual expenses of the government. With an equal amount of gross revenue, the revenue which might be applied in defraying the national expenses in consequence of the reduction of the debt was \$2,600,000 greater than in April, 1801.<sup>2</sup>

During the last eight years, \$8,000,000 had been paid annually on account of the principal and interest of the debt. No other portion was reimbursable after the end of 1811, except the residue of converted stock, which amounted only to \$565,000. The whole amount payable after the year 1812, including the annual reimbursement on the six-per-cent and deferred stocks, was \$3,792,382, making an annual difference of more than \$4,200,000 which would be liberated from that appropriation. Moreover, this annual payment of less than \$4,000,000 would have been sufficient, with some small variations, to discharge, in ten years, the remainder of the debt, excepting

<sup>1</sup> Gallatin's Annual Report, December, 1810.

<sup>2</sup> Gallatin's Annual Report, November, 1811.



the three-per-cent stock, the interest on which was only \$485,000. The war, however, delayed the consummation of the desired end twelve years longer, or until 1834.

The redemption of the debt had been effected without the aid of internal taxes, either direct or indirect, and, during the last seven years, without any addition to the rate of duties on importations. But it should be remembered that an increase of two and a half per cent *ad valorem* duties, known as the "Mediterranean fund," was imposed soon after the repeal of the internal duties. The salt-tax, though, had been removed; and, during the last four years, there had been a great diminution in American commerce, and the revenues of the government had suffered severely in consequence of this unhappy event.

"It therefore proves decisively," said Gallatin in his report for 1811, "the ability of the United States, with their ordinary revenue, to discharge, in ten years of peace, a debt of \$42,000,000,—a fact which considerably lessens the weight of the most formidable objection to which that revenue, depending almost solely on commerce, appears to be liable. In time of peace, it is almost sufficient to defray the expenses of a war: in time of war, it is hardly competent to support the expenses of a peace establishment. Sinking, at once, under adverse circumstances, from fifteen to eight millions of dollars, it is only by a persevering application of the surplus which it affords, in years of prosperity, to the discharge of the debt, that a total change in the system of taxation, or a perpetual accumulation of debt, can be avoided."



## CHAPTER V.

## TAXATION OF IMPORTS.

WHEN the members of Congress assembled for the first time, poverty was written on more than one face, as well as on the door of the public treasury. Even Washington, during the earlier days of his administration, was obliged to borrow money, and pay heavy interest, to maintain himself and his household. To supply the immediate wants of the government, Hamilton negotiated several loans with the Bank of New York,<sup>1</sup> and addressed a letter to the American bankers in Holland, asking for a provisional loan of three million florins.<sup>2</sup> There was no law authorizing these loans, and they were speedily discharged; but the need of money was so great, that no one ever questioned the propriety of Hamilton's conduct in making them. In one of his earliest communications to the House, he declared that "obvious considerations dictate the propriety, in future cases, of making previous provision by law for such loans as the public exigencies may call for, defining their extent, and giving special authority to make them."<sup>3</sup> Thus he clearly recognized the impropriety of

<sup>1</sup> Hamilton's Statement to the House, Jan. 11, 1793, 1 Finance, p. 185.

<sup>2</sup> Hamilton's Hist. of Repub., vol. iv. pp. 32, 48.

<sup>3</sup> Hamilton's Report on Additional Estimates for 1790, 1 Finance, p. 38.

his action furnishing a precedent, either for himself or for subsequent secretaries, to borrow money without the authority of Congress.

The most pressing business of Congress, therefore, was to provide a revenue for the maintenance of the government. Madison introduced a resolution for the establishment of an impost similar to the one discussed in the Congress of the Confederation in 1783. The bill imposed specific duties on a few enumerated articles of general consumption, and an *ad valorem* duty of five per cent on others. A tonnage duty also was added, which gave a preference to American over foreign vessels, and discriminated in favor of those nations with which the United States "were in treaty."

Hamilton was opposed to framing any permanent bill, because Congress did not know enough about the subject to legislate wisely. He proposed, therefore, that a general *ad valorem* duty should be charged on all importations. Madison thought otherwise. He believed that Congress could safely go further toward a definitive solution of the question. There were others who urged the adoption of such a tariff as would encourage and protect home manufactures. The members from Pennsylvania pressed this view with considerable zeal; and they offered a resolution enumerating the articles, the manufacture of which they proposed the government should "encourage and protect." Madison contended that it was the duty of Congress to protect national as well as local interests, and that the States, having surrendered the power of protection, had a right to expect it from the general government. Various discriminative duties were proposed, some

avowedly prohibitive. During the discussion of the measure, petitions were presented from various quarters in favor of a revenue system, the chief object of which should be to foster "domestic industry."

The discrimination in the tonnage duty proposed by Madison caused an exciting debate. Some members contended for a discrimination in favor of France, in requital for the debt of gratitude which America owed to her, and which ought not to be forgotten. There were those, however, who saw that the present situation required the maintenance of a perfect neutrality on the part of the American Government toward other nations. "Nations in treaty" could not supply all the shipping needed: hence that of Great Britain would be required to transport our produce. Such a discrimination, therefore, would operate as a bounty to foreigners and as a tax on ourselves, and would be regarded as retaliatory. Great as was the debt of gratitude owing to France, the discrimination proposed was too heavy a charge to be borne by the American people in return for past favors.

Congress finally decided, "whereas it was necessary for the support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures, that duties be laid on goods, wares, and merchandises imported," to levy specific as well as *ad valorem* duties, allowing drawbacks on goods exported within a year, and a discount of ten per cent on goods imported in vessels which were owned entirely in the United States. To the ships of all foreign nations engaged in American commerce, an equal advantage was

given. The measure was to continue in force until the end of the session of Congress held after the first day of June, 1796.<sup>1</sup> Hamilton advocated the raising of "permanent funds" as the only basis for the adequate support of public credit.

This Act was speedily followed by another, which regulated the duties charged on all ships or vessels entering the ports of the United States. A discrimination was made in the beginning in favor of American owners. They were required to pay only six cents per ton, and foreign owners fifty. On vessels owned partly in this country, and in part abroad, a duty of thirty cents per ton was levied.<sup>2</sup>

At the second session, higher rates, both specific and *ad valorem*, were substituted. The lowest *ad valorem* duty was five per cent; but it was not levied on so many articles. The free list was somewhat extended in those directions which were thought to be helpful to manufactures and agriculture. It was further declared that the duties thus levied should be continued until the debts and purposes for which they were appropriated were satisfied. Congress, however, reserved the right to substitute other duties or taxes of equal value.<sup>3</sup>

<sup>1</sup> Act, July 4, 1789, 1 Cong., first session, chap. 2. "There were no prohibitory views entertained in the Act; but the idea of incidental protection that the necessary duties would afford to the manufactures, started into life during the war, was held out to counteract, in some degree, the popular prejudices against all taxation. The political prejudice against British goods, which existed before the war, was appealed to, under the Union, to make taxation palatable." — *Dem. Rev.*, September, 1846.

<sup>2</sup> Act, July 20, 1789, 1 Cong., first session, chap. 3.

<sup>3</sup> Act, Aug. 10, 1790, 1 Cong., second session, chap. 39.



The next year the duties on imported spirits were increased from twenty to forty cents a gallon, and a tax was laid on spirits distilled at home. In consequence of the large outlay to protect the frontier, several of the duties were increased at the following session of Congress.

Thus the duties grew heavier annually; yet, when the government was six years old, the burden of taxation did not cause any dissatisfaction, unless, perhaps, the duty on salt was regarded as too great. Even that was not very keenly felt, and might have been deemed moderate, compared with the tax imposed by some governments. Gallatin said it was higher, in proportion to the value of the article, than that paid on any other, and that, whatever impediment might exist in the way of its repeal from the difficulty of finding a substitute, it would be equally unjust and impolitic to raise it above the present rate. So far as the article was consumed by man, it was a species of poll-tax, which fell alike on the poor and rich: when consumed by cattle, it was a tax on agriculture, and would prove pernicious if ever increased so high as to check its use.<sup>1</sup>

Between 1789 and 1812, thirteen tariff laws were enacted, the general scope of which was to increase the duties as well as the number of dutiable articles.<sup>2</sup> The

<sup>1</sup> Writings of Gallatin, vol. iii. p. 82.

<sup>2</sup> In 1793 Jefferson made a report on "the privileges and restrictions on the commerce of the United States in foreign countries." For this document the House had called in 1791; but two years passed before Jefferson reported. There was much excitement then concerning our relations with France and Great Britain. The national sympathy toward France was as hearty and universal as was the hatred toward Great Britain. The re-



increase was for the purpose of meeting the expenditures of the government, and the payment of the national indebtedness. But the protection of American industries was not ignored, as the history of the proceedings of Congress clearly shows.<sup>1</sup> The subject, however, did not assume such importance in the debates of that body as it has subsequently acquired. One reason was, because public sentiment was so strongly united. The reports of the committees of Congress, and the subsequent debates thereon, show very clearly that the protection of American industries from foreign competition was a principle very widely accepted. Wherever may lie the truth respecting free trade and protection, as the subject is popularly termed, there is no question whatever, that in the earlier history of the Republic the tide of public opinion set more strongly in the direction of governmental protection than it does to-day. The atmosphere was heavily charged at that time with the idea of improving home industries.

Throughout the Colonial period the English Government had sought to restrain every kind of domestic manufacture unfavorably affecting the manufacturing interests of the parent-country. The jealousy of the English Gov-

port recommended a system of discriminating duties in favor of France, and against British products. Hitherto he had been opposed to protective duties of every kind; but in this his last official report as secretary of state he did not hesitate to recommend them. — GIBB'S *Adm. of Wash. and Adams*, vol. i. p. 119. The report caused a lengthy debate, which ended with the rejection of the system proposed by Jefferson.

<sup>1</sup> A committee of the House recommended the granting of a loan of eight thousand dollars to a glass manufacturer who had suffered loss by fire; but the report was not adopted. — 1 *Finance*, p. 62.

ernment in this regard, and of its manufacturing classes, is a familiar fact of history. The colonists were permitted to plant, sow, and reap, to live and labor for their happiness and prosperity, so long as they did not mar the peace and prospects of their English brethren across the ocean.

With the acknowledgment of independence by Great Britain, and the establishment of peace, blessed as that peace was, it could not efface all the wrongs of the past. The spirit which the English manufacturer and his government had manifested toward America could not be speedily forgotten. The recollection of these things contributed very much in coloring the early tariff legislation of this country. We were more eager to manufacture and to wear homespun goods because of the treatment we had received from our English mother. The manufacturing of goods in the United States at that period was not a business merely of dollars and cents. Let any one read the literature of the time, and he will find that home manufactures were encouraged, not solely to get them cheaper, either immediately or prospectively, but because revenge was sweet, even if purchased at considerable cost to the avenger.

In 1789, when the first tax on imports was imposed, there were several circumstances which favored the experiment of home manufacturing. The value of labor, provisions, fuel, rents, and raw material, were much lower than they had been, and cotton-machines to some extent had been introduced. Hemp had risen in Russia thirty or forty per cent; and this advance

afforded a protection to the American cultivator of that product.<sup>1</sup>

The desire, too, for European manufactures and luxuries, which spread after the close of the war, had been checked. "Ashamed of our folly," says a writer, "and alarmed at the danger we were in, a serious change was generally resolved on, and has generally taken place, as beneficial to home manufactures as our former habits were injurious. Buckskin breeches and gloves, home-made jeans and cottons, homespun stockings of thread, cotton, and worsted, American porter, beer, and cheese, and many other articles, have become fashionable in dress, and familiar in diet; and in general a greater simplicity and frugality has been introduced into our families."<sup>2</sup>

But an emptying of private purses was not less potent in causing this return to home productions, and to greater simplicity of living, and sharper economy, than pure patriotism, and a revengeful remembrance of ill treatment by the mother-country. Imports of merchandise had greatly exceeded exports, and the balance could be liquidated only in specie. This was soon exhausted. Credit did not exist; and the people could not do otherwise than

<sup>1</sup> Hamilton, in his famous report on manufactures, after enumerating seventeen kinds of manufactures which were flourishing in the country, including iron, cotton, wool, flax, and hemp, adds, "Besides manufactories of these articles, which are carried on as regular trades, and have attained to a considerable degree of maturity, there is a vast scene of household manufacturing, which contributes more largely to the supply of the community than could be imagined, without having made it an object of particular inquiry."

<sup>2</sup> Tench Coxe, *Am. Museum*, vol. iv. p. 344.

curtail their purchases of foreign goods, whatever might be their wishes.<sup>1</sup>

The destruction of our credit, therefore, was a blessing to the home manufacturer. Nor was the blessing of less consequence to "the landed gentlemen throughout the Union." "They now suddenly see," says a writer of that period, "that it is their interest to purchase home-made articles at a given price, rather than imported; because the foreign manufacturer calls not for their produce, either for provisions or raw materials, but the American manufacturers must necessarily consume both." Accordingly, a new movement was begun to extend American manufactures. The movement became general. The literature of the day was full of appeals, addresses, and resolutions setting forth the duty of the people to encourage home industry.<sup>2</sup>

Not only did this spirit permeate the people during the administrations of Washington and Adams: it continued for a long period without any perceptible abatement. Memorials were presented to Congress from every quarter,—from gun manufacturers, bottlers, iron, copper, leather, and twine manufacturers, the cultivators of hemp, the distillers of ardent spirits, and from other sources. Some of these memorials were very elaborate, like the

<sup>1</sup> Gov. Sullivan of New Hampshire, in an address, said, "This balance of trade against a nation, like a whirlpool, drains off the circulating cash, and leaves the people 'poor indeed.' This among others (which it is not my province to name) is a great cause of the scarcity of money among us at this day, and is one principal foundation of our present distress. We feel the evil, and complain, though very few attempt to discover its source."

—*Am. Museum*, vol. v. p. 577.

<sup>2</sup> *Am. Museum*, vol. v. frequent references.



memorial presented by the artisans and manufacturers of Philadelphia.<sup>1</sup> They set forth at considerable length the reasons why a large number of articles, even of the first necessity, manufactured for the United States by foreign nations, were produced here less advantageously. Briefly stated, the reasons were, foreign fashion,<sup>2</sup> the overstocking of the American market with foreign goods, unjust competition with foreign manufacturers, the expense necessarily attending the commencement of complicated manufactures, and, lastly, duties injudiciously laid on raw materials or goods partially manufactured.

During the first and second sessions of the seventh Congress, applications for protection rapidly multiplied. A report thereon was made by the committee of commerce and manufactures. A succinct history of the efforts to protect home industries was given. One mode of encouraging them had been to exempt imported raw materials from taxation: consequently, wrought iron and unwrought burrs were thus admitted; so were the bristles of swine, the regulus of antimony, rags, saltpetre, and sulphur. These exemptions were made for the purpose of aiding those who used these things in the manufacture of other commodities. Another mode of encouraging manufactures was "by laying higher or prohibitory duties on manufactured articles imported." A third mode was withholding a drawback from articles of foreign manufacture subsequently exported. Such a policy was adopted with reference to loaf and refined sugar. A fourth mode of

<sup>1</sup> Presented Dec. 9, 1803.

<sup>2</sup> For prejudice against the use of American paper, see Niles, vol. i. p. 462, *note*.



encouragement was the allowance of a drawback on domestic manufactures equal to the duty paid on the imported raw materials used in such manufactures. A drawback, therefore, was allowed on the re-exportation of sugar refined from the foreign material, and on rum distilled from molasses. A final mode of encouragement was the bestowal of direct bounties, which were received by fishermen engaged in curing and exporting fish.

“From this view of the proceedings of Congress,” say the committee, “it will appear that much has been done already to encourage the domestic industries of our citizens. Industry, under such aids as the government by these means has given, at a time when population is so rapidly increasing, has caused useful arts and manufactures to rise up and thrive in almost every part of the country. Our works in wood, copper, hemp, leather, and iron, are really excellent and extensive; and if we do not excel in the manufacture of the finer articles of cotton, silk, wool, and the metals, we may felicitate ourselves, that, by reason of the ease of gaining a subsistence and the high price of wages, our fellow-citizens born to happier destinies are not doomed to the wretchedness of a strict discipline of such manufactures.” The committee continue in the following exulting strain: “Our citizens are distinguished for their ingenuity and skill. They have invented many expedients by machinery to shorten and cheapen labor. The machines for making wool and cotton cards, the machines for ginning cotton, the machines for cutting and heading nails, the machinery for elevating wheat and for raising and stirring meal in mills, and the improvements in the manufacture of muskets, class with

all the most useful inventions with which the age has been adorned.”

The conclusions of the committee were in harmony with their reasonings. The secretary of the treasury, complying with a resolution of Congress, had prepared a plan for levying new and more specific duties. This report formed the basis of the calculations of the committee. They recommended that rags of linen, cotton, woollen, and hempen cloths, bristles of swine, regulus of antimony, unwrought burr-stones, saltpetre, and the bark of the cork-tree, should be admitted without payment of a duty, though previously a duty of twelve and a half per cent had been exacted. The duty on brushes and black bottles, of twelve, and a half per cent, was doubled; that on fur hats and plated ware was raised from fifteen to twenty per cent, and on stone-ware, window-glass, and cannon-balls, from fifteen to twenty-five per cent. Foreign pickled and dried fish, on which a duty of twelve and a half per cent *ad valorem* was levied, were to be subjected to a duty of a dollar and a half per barrel for the former, and a dollar per quintal for the latter. A duty of three cents a pound on starch, and four cents a pound on hair-powder and glue, was charged in lieu of the present duty of fifteen per cent *ad valorem*. On calicoes and gunpowder the duty was raised from twelve and a half to fifteen per cent. The duties exacted on tarred cordage and cables, of a dollar and eighty cents per hundred, and on untarred cordage, two dollars and a quarter, were changed to two cents per pound on the former, and, on the other, half a cent more.

The report of the committee was adopted. By so

doing was signified the desire of Congress to encourage the development and growth of home industries, — to continue that “sound policy,” which, in the language of the preceding committee of commerce and manufactures, pointed to the necessity of granting governmental aid for the protection of such manufactures as were obviously capable of affording the United States an adequate supply of their several and respective objects, either by admitting free of duty the raw articles essential to their manufacture, and which could not be procured in the United States, or by imposing a higher duty than was paid on those articles which our citizens were not able to manufacture.<sup>1</sup>

It may be remarked, that, beside the protection thrown over the manufacturing interest by Congress during this period, the wars which raged in Europe produced a favorable effect. American commerce rode the waves of an unexpected and brilliant prosperity. As the United States was a neutral nation, she fattened on the miseries of the European nations, and her commerce increased with astonishing rapidity. She excited the envy and jealousy of the English Government, whose commerce was rapidly diminishing. To her this was the most bitter part of the cost to subdue Napoleon. Our manufactures flourished from the same cause, though not to a corresponding degree with our commerce.<sup>2</sup>

Notwithstanding these favoring circumstances, the

<sup>1</sup> Mitchell's Report, Jan. 25, 1804, 2 Finance, p. 80.

<sup>2</sup> Memorial to Congress of N. Y. Convention of Dom. Industry, January, 1833. Memorial to Congress of Lewis Sanders and others, Jan. 22, 1811, 2 Finance, p. 465. Gallatin's Report on Manufactures, April 19, 1810, 2 Finance, p. 425.

early impediments with which American manufacturers contended were very great. There was a lack of workmen, especially of those possessing much skill. Wages usually were high, and machinery could not be easily procured. Foreign manufacturers were wide awake to the determination of keeping all machinery from the country that would enable us to manufacture at better advantage. In 1787 two carding and spinning machines, which were in the possession of a person in Philadelphia, and "which were calculated to save the labor of no less than one hundred and twenty workmen daily," were purchased by the agency of a British artisan, packed in cases as common merchandise, and sent to Liverpool. The object of purchasing these machines was to get them away.<sup>1</sup> The hostility to American manufacturing was manifested in another way during the same period. Experiments were then rife for introducing the cotton-plant into the country. Whether the English manufacturer at that early day foresaw the adaptation of the plant to the climate and soil, we do not know, but, with the vain hope of destroying its cultivation, and preventing its manufacture, a considerable quantity of cotton-seed was purchased and burned in Virginia by a British agent.<sup>2</sup> The same spirit continued for years, and was exhibited in many unexpected and exasperating ways to the American manufacturer.<sup>3</sup>

<sup>1</sup> Am. Museum, vol. iv. p. 342.

<sup>2</sup> Ibid., p. 345. Niles, vol. x. pp. 322, 323.

<sup>3</sup> "It seems that two machines for spinning and carding were with much difficulty obtained in this country at Philadelphia as early as 1788. . . . The English prohibited the export of the cotton-machinery, as well as the emigration of their mechanics, under such penalties as delayed the introduction of it here, and caused the price of machinery for many years



At first, duties were both specific and *ad valorem*. Both kinds have been levied during the greater period of our history, but on several occasions the current has run more strongly toward one system than the other. Hamilton, in the last communication he ever made to the House, favored the contraction of the *ad valorem* system, and the extension of specific duties. The reason for the change, he declared, was obvious. "It is to guard against evasions, which infallibly happen, in a greater or less degree, where duties are high. It is impossible for the merchants of any country to have manifested more probity than those of the United States on this subject, and it is firmly believed that there never was one in which illicit practices to the disadvantage of the revenue have obtained so little, hitherto, as in this; yet it would be a delusive expectation, that, with duties so considerable as those which now exist, a disposition will not be experienced in some individuals who carry on our import trade to evade the payment of them, and this to an extent sufficient to make it prudent to guard with circumspection, and by every reasonable precaution, against the success of such attempts."<sup>1</sup> Hamilton offered to "digest the details of a plan for this purpose," but, resigning shortly afterward, the bill was never drawn, and so the old system, constantly modified, was continued.

As soon as the tariff-law was passed, it was necessary to provide for the collection of the duties imposed. The

to be so high here as to retard, and almost defeat, successful competition."  
— Sec. WOODBURY, *Report on Cotton*, March 4, 1836, No. 146, 24 Cong., first session, p. 57.

<sup>1</sup> Works of Hamilton, vol. iii. p. 529.



principal officers for collecting the revenues were divided into three classes, — collectors, naval officers, and surveyors. The States were divided into districts: and some of the ports were designated as places where goods might be entered and delivered; at other ports there could be only a delivery of goods. To every district a collector was appointed; to many of them a surveyor was added; but a naval officer was attached only to a few. At those ports where the three officers were appointed, it was the duty of the collector to receive all reports and other documents given to him by the commander of any vessel, and to make a record of them; to receive the entry of all vessels and merchandise, with the invoices thereof; to estimate the duties payable thereon, to receive the money paid for them, and to take the bonds for securing their payment; to grant permits for the unloading and delivery of goods, and to employ proper persons as weighers, gaugers, measurers, and inspectors at the several ports within his district. He was also to provide at public expense, and with the approval of the principal officers of the treasury department, storehouses for the safe-keeping of goods.

The naval officer was required to receive copies of all manifests, to estimate and record the duties on each entry made with the collector, and to correct any error therein, before a permit to unload or deliver was granted. The duties of the surveyor were more extensive. He was required to superintend and direct all inspectors, weighers, measurers, and gaugers, and the employment of the boats which might be provided for securing the collection of the revenue; to place on board every vessel, as soon as it arrived, an inspector to rate the distilled spirits forming

the cargo, and to ascertain whether the goods imported were conformable to the entries made of them. The surveyor was always the servant of the collector and naval officer. When a collector only was assigned to a port or district, as was the case generally, he performed the duties of naval officer and surveyor; and, when a collector and surveyor were assigned, the former performed the duties of naval officer. The collection of duties was to begin the fifteenth day of August, 1789, and on tonnage fifteen days afterward.<sup>1</sup>

As the law for collecting them did not pass until July, it was impossible to appoint and commission all the revenue officers in time for them to put the law in operation on the day prescribed. The custom-houses were organized in the several States during the months of August and September, and in the interval a number of importations occurred. In some instances duties were paid under State laws: in other cases none were paid.

Hamilton considered that duties accrued on all importations after the day specified for their collection. A claim for them was made with a view of getting a legal decision thereon. Nevertheless, he questioned the expediency of collecting duties on merchandise which had been thus imported. The enforcement of the claim, he thought, might be regarded rigorous, and in some cases injurious, especially when goods had been sold without reference to the duty.<sup>2</sup> Besides, it would not be easy to ascertain what ought to be paid. His opinions were shared by Congress, and accordingly it was enacted that

<sup>1</sup> Act, July 31, 1789, 1 Cong., first session, chap. 5.

<sup>2</sup> Works, vol. iii. pp. 54, 55.

all duties which had accrued between the 15th of August and the time when each collector entered his office should be remitted, and, if any one had paid duties to the government during that period, restitution should be made.

In executing the law, collectors at first followed the regulations which had previously been adopted by the States; but Hamilton, notwithstanding the variety and difficulty of his labors, soon established a system of rules for their guidance. The collectors were required to render a weekly account of their receipts and expenditures to the treasurer, to report the defects which should be discovered in executing the law, and to make full returns of the work of their offices. Bonds taken for duties, if not paid as stipulated, were to be put immediately in suit: indeed, "the most exact punctuality would be considered indispensable." "Resolutions," Hamilton added, "under State laws, may give an air of rigor to this instruction." But he regarded its strict observance essential, "not only to the order of the finances, but even to the propriety of the indulgence which the law allowed of procrastinated terms of payment of duties." Indeed, very complete instructions were given to the collectors to guide them in performing their untried duties.<sup>1</sup>

It was not expected that the law, prepared with so much necessary haste, would operate perfectly. Defects soon began to appear. These were afterwards made known to Congress by Hamilton. At the next session most of the provisions were repealed; and another law was passed, which continued in force until 1799, when a still

<sup>1</sup> Hamilton's Hist. of Repub., vol. iv. pp. 39-41.

more elaborate statute was enacted, which has served as the groundwork of all subsequent legislation.<sup>1</sup>

For many years Gallatin affirmed, that, notwithstanding the gradual increase of duties, they were faithfully paid, and that the frauds so often committed on the fair trader and the public, in countries where a large revenue was derived from customs, were comparatively few in the United States. The whole amount of fines and forfeitures incurred for a period of five years and a half, for breaches of the revenue laws, which, during the same time, had yielded a net revenue of \$17,000,000, did not much exceed \$9,000. Tea, however, formed an exception, as the consumption for the years 1793 and 1794 was only one-half as great as for the two previous years. The temptation offered by the high duty and the small bulk of the article pointed out the true remedy; namely, a decrease of the duty.<sup>2</sup>

At a later period it was remarked by a committee of Congress, that the duties on wines had been so injudiciously laid as to produce a strong temptation to enter high-priced wines, which paid a very high duty, under the names of low-priced ones, paying a duty comparatively low. This fraud had been extensively practised.<sup>3</sup>

When the new government had been in operation twenty years, a very interesting and instructive report was made, concerning "the principles and practice" adopted by the treasury department in "mitigating or

<sup>1</sup> Act, March 2, 5 Cong., third session, chap. 22.

<sup>2</sup> Writings of Gallatin, vol. iii. p. 82.

<sup>3</sup> Harper's Report on Additional Revenues, April 30, 1800, 1 Finance, p. 642.



remitting" the fines, penalties, and forfeitures incurred under the revenue laws. Congress had confided to the secretary of the treasury a very broad and delicate authority in the matter, which, happily, had been "used in a manner liberal and just." He was vested with power to mitigate or remit a fine, forfeiture, or penalty, or to remove the disability, or any part thereof, if in his opinion it had been incurred without wilful negligence or any intention of fraud, and to direct prosecutions to cease on such conditions as he deemed reasonable and just. To obtain the benefit of this law, however, it was necessary to have the facts in every case determined by a judge of a district court of the United States, who then transmitted the record to the secretary of the treasury for his decision.

In exercising his authority, Gallatin declared, that, in deciding those cases to which the power of remitting in whole or in part applied, and in graduating the amount of penalty in those where it appeared improper to grant an unqualified remission, he had been invariably governed by the following principles: first, enforcing the laws; second, reducing the penalty to that amount, and requiring only that portion which appeared sufficient for the purpose of preventing infractions; and, third, uniform rules of decision, so far as the diversity of cases rendered them practicable. In applying these principles to individual cases, several circumstances were considered,—the degree of negligence manifested by the party, the importance for the safety of the revenue of the particular provision which had been infringed, the encouragement due to the vigilance of the officers, and, when necessary for

the purpose of checking illegal importations, the profit derived from the transaction. But the gain to the treasury had never influenced him, or "even been thought of," in making a decision.

The number of cases decided by Gallatin was twelve hundred and ninety-seven. In ninety-two of these, he decided there was an intention to defraud the government, and no remission was granted. Absolute remission had been granted in eight hundred and eighty-eight cases, generally on payment of costs, and in three hundred and seventeen cases the fines had been mitigated. In about two-thirds of these, nothing more had been inflicted than the payment of sums, generally inconsiderable, which were given to the custom-house officers. The expenses incurred in prosecuting for offences against the revenue laws considerably exceeded the amount actually recovered, and paid into the treasury. Those penalties, therefore, had not been a source of revenue.<sup>1</sup>

Individuals were constantly applying to Congress for remission of duties in cases not provided by law, but in the collection of which it was urged some peculiar hardships would be sustained. In one case, a large amount of goods had been landed in New York, and a fire had occurred, destroying the warehouse and its contents. Applications were founded on a great variety of circumstances too numerous to describe. Not infrequently, when the secretary had decided against an applicant for the remission of a fine or forfeiture, Congress was asked to grant relief. Cases of this character were so numerous, that the reader may be led to ask, Why was not a

<sup>1</sup> Quincy's Report on Fines, etc., Feb. 27, 1813, 2 Finance, p. 615.

proper tribunal instituted for disposing of them, instead of dividing the power and responsibility between the secretary of the treasury and Congress? Surely, the creation of an adequate tribunal, composed either of existing officials or of other persons, would have relieved Congress and the secretary of the treasury from the performance of a duty which could have been more satisfactorily performed than it had been.

Applications were often made to Congress to grant relief to those who had given bonds to secure the payment of duties. This was more especially the case with those who had become sureties. In another class of cases, the applicants sought to obtain a drawback. Such cases were very frequent.

In the beginning, Congress provided that all duties on imported merchandise, except brandy and geneva, which was re-exported, should be returned within a specified time. One per cent of the duties, however, was retained to cover the expense of entering and storing such merchandise. With respect to salted fish and provisions, the law provided an allowance "in lieu of a drawback of the duties imposed on the importation of the salt employed and expended therein." A glaring defect in the law was soon discovered. A vessel arriving from a foreign port, with a portion of her cargo destined for the United States, was obliged to pay duties on the whole, and even to land those articles which required weighing, measuring, or gauging, in order to ascertain the duties. Nor did the allowance of drawbacks obviate the difficulty.<sup>1</sup> This was

<sup>1</sup> Sec. Hamilton's Report on the Operations of the Act laying Duties on Imports, April 23, 1790.

a very serious defect in the law, but, like other defects, could not be remedied until the next session of Congress, when the law was thoroughly revised.<sup>1</sup>

The original design of the law for raising a revenue on imports was to tax consumption, and the allowance of a drawback was to favor trade.<sup>2</sup> In his famous report on manufacturing, Hamilton recommended the exemption from duty of nearly all materials employed in manufactures. To this rule, he remarked, there should be some exceptions. Three examples, illustrating three classes of exceptions, were given. In the first example, the material itself was extensively consumed, and consequently a fit and productive source of revenue. Such a commodity was molasses. It was "just that the consumers of it should pay a duty, as well as the consumers of sugar." Another exception was that of a manufacture the competition of which with a similar domestic article it was desirable to restrain. The manufacture itself partook of the nature of a raw material, and, by a further process, could be converted into a manufacture of a different kind, the introduction or growth of which it was desirable to encourage. Cottons and linens in their white state fell under this description. A duty on those imported was proper to promote the domestic manufacture of similar articles in the same state. A drawback of that duty was equally proper to encourage the printing and staining at home of those which were brought from abroad. When the first of those manufactures had attained sufficient maturity to furnish a full supply for the second, the utility of the drawback

<sup>1</sup> Act, Aug. 4, 1790, 1 Cong., second session, chap. 35, sect. 18.

<sup>2</sup> Tracy's Report on Drawback, Feb. 19, 1802, 1 Finance, p. 733.



ceased. A third exception, he contended, should be made, when the material itself was produced in sufficient abundance here to furnish a cheap and plentiful supply to the manufacturer requiring it. Hemp either did or was soon expected to exemplify a commodity of this class.

Hamilton further remarked, that, when duties on the materials of manufacture were not laid for the purpose of preventing competition with some domestic production, the same reasons which recommended, as a general rule, the exemption of those materials from duties, would recommend the allowance of a drawback in favor of the manufacturer. Accordingly, such drawbacks were familiar to countries which systematically pursued the business of manufactures, which furnished an argument for the observance of a similar policy in the United States; and the idea had been adopted by the laws of the Union in respect to salt and molasses. Hamilton believed that the same principle could be beneficially extended to other articles.<sup>1</sup>

Several years afterward, when more revenue was wanted, the secretary of the treasury, Wolcott, recommended a tax on drawbacks. The committee of ways and means considered the expediency of the measure. War was then raging in Europe; and it was contended, on the one hand, that, if such a tax were laid, it would not rest on our commerce or merchants, but on foreign nations, who were the consumers of the re-exported commodities. While the war continued, they would certainly be obliged to purchase them from America alone, and would be under the necessity of repaying the tax, in addition to the price which otherwise would be demanded.

<sup>1</sup> Report on Manufactures.

To this reasoning it was answered, that the whole argument rested on the supposition of our ability to effect two things, both of which were very uncertain: namely, to monopolize the business of supplying the countries in question with East and West India and China commodities, and "to compel those commodities to touch first at our own ports, before they were carried to the places where they were consumed;" for it was clear, that if, by raising the price of the commodities, we should raise up competitors who could underbid us in the foreign markets, or should, by taxing them when they arrived at our own ports, lead our merchants to carry them directly from the places of their production to the places where they were consumed, without landing them in this country, — in either case the duty would be lost: in the first, by ruining altogether our trade, whereon the duty must depend; and, in the second, by turning the trade away from our own ports, where alone the duty could be collected. A duty of two and one-half per cent, which was the figure proposed, would amount to a large sum on a valuable cargo, and was a sufficient premium to tempt the avoiding of American ports. The committee made no recommendation, but Congress tried the experiment.<sup>1</sup> The duty imposed was two and one-half per cent, in addition to half that sum previously exacted for entering and storing such goods, but, if they were re-exported in the foreign vessels which imported them, the drawback previously allowed was withheld.<sup>2</sup>

<sup>1</sup> Harper's Report on Additional Revenues, April 30, 1800, 1 Finance, p. 642.

<sup>2</sup> Act, May 13, 1800, 6 Cong., first session, chap. 64.

Another defect early appeared in the law relating to this subject. Goods were brought into the United States, and then re-exported to a foreign port adjacent to the dominion of this country. As the drawback was allowed when they were taken away, and they could be easily returned after re-exportation without the payment of a duty, the government was defrauded of the revenues to which it was fairly entitled. This defect was partly corrected by the law of 1799.<sup>1</sup>

Manufacturers were constantly trying to obtain more favorable legislation in the way of drawbacks on imported dutiable merchandise used in the manufacture of other articles which they desired to export. Cordage was one of the things which secured much attention from Congress. In 1793 it had been exported in considerable quantities, but later a duty of twenty dollars per ton was levied on foreign hemp. Of course, the levying of so heavy a duty on the raw material was a serious detriment to the American manufacturer. But it did not appear expedient to Congress, either to increase the duty on the imported article, or to discontinue the allowance of the drawback on the re-exportation of foreign manufactured cordage: Congress therefore devised another remedy; namely, the payment to American manufacturers of a certain sum on all cordage exported, as equivalent to the duty on hemp.<sup>2</sup> The same remedy was applied to other things.

Still the cordage manufacturers were not satisfied. They wanted either a discontinuance of the drawback on

<sup>1</sup> Act, March 2, 5 Cong., third session, chap. 22, sect. 75.

<sup>2</sup> Bourne's Report on Drawback on Cordage, Feb. 7, 1793, 1 Finance, p. 202.

foreign cordage when exported, or an allowance of a drawback on the exportation of home-made cordage equal to the duty imposed on hemp. There were two grave difficulties in the way of granting such relief. The first was the contravention of the general principle adopted by the government of allowing drawbacks on the exportation of imports: the other difficulty was the distinguishing of cordage made of American hemp from that made of the foreign material. These objections were subsequently made to similar applications of soap and candle manufacturers.

Sugar-refiners frequently applied to Congress for similar assistance, which was desired for the same reason, chiefly, that was given by the cordage, soap, and other manufacturers. The duty collected from this source has always been so large as to warrant our describing the manner in which the government allowed drawbacks whenever sugar was exported.

At first a duty of two cents a pound was collected on sugar refined within the United States. A similar duty was allowed as a drawback, besides three cents a pound to cover the duties paid on importations. When this regulation was made, the duty on crude sugar was one cent and a half a pound. As two pounds of crude sugar were needed to make one pound of refined, three cents per pound were allowed on exporting the refined article; and to this were added the two cents per pound paid for the excise, the duty and the excise thus making a drawback of five cents a pound allowed in the beginning. By subsequent statutes, the duties on imported sugar were increased; but there was a corresponding increase of draw-



back. When, however, the internal taxes were repealed in 1802, the drawback on refined sugar, then amounting to seven cents a pound, ceased.

Notwithstanding the repeal of these statutes, the refining of sugar in the United States was "not wholly unprotected." At one time sugar-candy, or crystallized sugar, could be imported from Asia, "not only so cheap as to vie with the West-India brown, but even to be substituted, in many cases, for refined sugars in the markets of the United States." The merchants who could have bought great quantities of this "elegant form of sugar" were interrupted in their trade by the imposition of a duty of nine cents a pound, which, three years afterwards, was increased two cents and a half per pound more. "Thus, to protect the domestic refiners of sugar, the merchants who traded to the East Indies were prohibited from bringing sugar-candy to the United States, and the citizens at home from consuming it, but at the enormous price paid for it as a dainty, a medicine, or a rarity."<sup>1</sup>

Nor was Congress unmindful of "encouraging the domestic sugar-refinery." By various Acts, a duty amounting to nine cents a pound was imposed on foreign refined loaf-sugar, and six cents and a half per pound on all other refined sugars. In 1799 Congress refused to grant a drawback on the exportation of imported loaf and lump sugars refined abroad, and forbade the importation of it in vessels of less burthen than one hundred and twenty tons, and in parcels of less than six hundred pounds.

<sup>1</sup> Mitchell's Report on Drawback, Dec. 20, 1803, 2 Finance, p. 74; and Crowninshield's Report on Drawback on Refined Sugar, Jan. 21, 1805, 2 Finance, p. 116.

These heavy duties effected an almost total prohibition of foreign refined sugars.<sup>1</sup>

The domestic refiners, nevertheless, strenuously sought to obtain a drawback on the exportation of their own product. There were two difficulties in the way, springing from the acquisition of Louisiana. The first was, that a large amount of sugar was prepared and exported annually from New Orleans and vicinity, and it was regarded as unreasonable to allow a drawback on sugar which had never paid a duty: the other difficulty was, that a sugar-refinery had been established at New Orleans, where others were likely to be established. To accomplish the object which the sugar-refiners had in view, it was declared necessary to prohibit the importation of refined sugar into Louisiana; and, to avoid paying a drawback on sugar that had never paid duties, it would also be necessary to distinguish the sugars of Louisiana from those of foreign production.

The sugar-refiners often renewed their demand, but in vain. Indeed, a report of the committee on commerce and manufactures, made during the session of 1805, shows that the current had set strongly against the sugar-refiners.

Occasionally Congress discovered that the duties were so high as to check importations. When cocoa, for exam-

<sup>1</sup> A committee of Congress who reported on this subject said, "Sugar-candy and loaf-sugar from abroad are loaded with such heavy duties, that their prohibition operates as a bounty on the domestic manufacturers. The duties on the refined sugar consumed at home are paid by the consumer; and, to protect the refiners of sugar in the United States, government has adopted measures that have considerably lessened the revenue on that article, and, by removing foreign competition, enhanced the price to the domestic consumer."

ple, was first taxed in 1789, the duty assessed was one cent per pound. It was afterward raised to two cents, and in 1794 the duty was doubled. The latter rate checked importations. The revenue received from the article when the duty was two cents per pound was as great as when the duty was doubled. Adam Smith's remark was again verified, that, "in the arithmetic of customs, two and two do not always make four." The increased duty, therefore, operated, say a committee who investigated the subject, "if not to discourage importation, to produce this effect by causing an export of it before manufactured." Another effect of the high rate of duty was to oppress unreasonably the manufacture of chocolate without benefiting in any way the public revenue.<sup>1</sup>

<sup>1</sup> Swanwick's Report on Reduction of Duties on Cocoa, Feb. 8, 1797, 1 Finance, p. 494.

## CHAPTER VI.

## INTERNAL REVENUE.

WHEN Congress convened the second time, every member clearly saw the necessity for increasing the revenue. From what source should the new supply be drawn? Hamilton urged an increase of the duties, and also a tax on spirits distilled at home. The latter suggestion was warmly debated in Congress. The Middle States and the East favored such a measure, but the South was strongly opposed. "Grog" was declared to be "a necessary article of drink in the Southern States;" and consequently "this mode of taxation was odious, unequal, unpopular, and oppressive." Some members regarded the measure as an invasion of the rights of the States. Said Jackson of Georgia, "I plainly perceive that the time will come when a shirt shall not be washed without an excise."<sup>1</sup> Another objection was the probable unequal operation of the law in the different sections of the country. This was the chief objection raised by the people of Pennsylvania who lived west of the Alleghanies. Nevertheless, the bill passed the House by a vote of thirty-nine to nineteen, requiring the payment of a duty of eleven cents per gallon on all spirits distilled from foreign materials, and nine cents on those manufactured from domes-

<sup>1</sup> Annals of Congress, vol. ii. pp. 1842, 1844.



tic materials. The duties were higher on spirits distilled from foreign materials, because they possessed greater value.

For the purpose of collecting these revenues, the country was divided into districts, and a supervisor was appointed for each district, with power to appoint those who should have the charge and survey of the distilleries within it. The duties were to be paid, or a bond given for their payment, previous to the removal of spirits from the distilleries. If payment were made before such removal, there was an abatement of two cents for every ten gallons. The regulations were somewhat different on those stills not located in "a city, town, or village." There was "a yearly duty of sixty cents for every gallon, English wine measure, of the capacity or contents of each and every such still, including the head thereof." If, however, the distiller were aggrieved by paying such rates, he was permitted to keep an account of the exact quantity distilled, and of the quantity sold and on bond; and the duties were to be estimated on such still, "according to the quantity so stated to have been actually made therefrom, at the rate of nine cents per gallon."

The law was passed March, 1791,<sup>1</sup> and a year afterward Hamilton made a report thereon, in obedience to an order of the House.<sup>2</sup> He declared that several objections had been raised to it, that it contravened the principles of liberty, was injurious to morals, that heavy and oppressive penalties had been prescribed, that industry was injuriously affected by it, and, finally, that the law interfered with the business of distilling.

<sup>1</sup> March 3, 1 Cong., third session, chap. 15.    <sup>2</sup> Works, vol. iii. p. 297.

All these objections were fully answered. "There can surely be nothing," says Hamilton, "in the nature of an internal duty on a consumable commodity, more incompatible with liberty, than in that of an external duty on a like commodity. A doctrine that asserts that all duties of the former kind are inconsistent with the genius of a free government is too evident, and too little reconcilable with the necessities of society, to be true. It would tend to deprive the government of what is, in most countries, a principal source of revenue, and, by narrowing the distribution of taxes, would serve to oppress particular kinds of industry. It would throw, in the first instance, an undue proportion of the public burden on the merchant and the landholder."

Excise laws were generally regarded as unfriendly to liberty, because summary and discretionary jurisdiction was vested in the officers charged with executing them, contrary to the course of the common law. But this objection could not be made to the present law. No indiscriminate power to search and inspect had been conferred. No house or building could be searched or inspected which had not been previously entered, and marked by the possessor as a place used for distilling or keeping spirits. The Act was supposed to injure morals by requiring oaths to be taken,—an effect which Hamilton regretted. But then, as he remarked, they were generally used in courts of justice. It was remarkable, he added, that both kinds of security to the revenue, provided by the Act,—the oaths of parties, and the inspection of offices,—found opponents. If they were both abandoned, it was not easy to imagine what security

there could be for any species of revenue collected from articles of consumption.

Some distillers suggested that the revenue might be more satisfactorily collected by having a fixed rate of duty, "adjusted according to a ratio compounded of the capacity of each still, and the number and capacities of the cisterns employed with it;" but this method found many objectors, who contended that it would operate unequally, arising from unequal supplies of the materials at different times and places, and also from the different methods of distillation practised, and from the varying degrees of activity in the business resulting from the capital employed. Hamilton declared that the result of his examination was, that every mode suggested in cases in which the business was conducted upon an extensive scale would be attended with many inequalities, and upon the whole would be less satisfactory than the plan which had been adopted.

Thus did Hamilton meet one objection after another, until he had gone over the whole field of dispute. His answer to one more objection may be given, before closing our review of his report. It was claimed that the duty ought to have been laid in the beginning on the consumer, and not on the distiller; because under the mode adopted a larger capital was necessary to carry on the business, and in the country, where capital was not large, distillers were placed at a disadvantage. This inconvenience, the secretary replied, was obviated by the credits given to them in paying their duties. On the other hand, the collection of the duty from the distiller had several advantages. It contributed to equality by

charging the article in the first stage of its progress, which diffused the duty among all classes alike. It better secured the collection of the revenue by confining the responsibility to a smaller number of persons, and simplifying the process. It avoided the necessity of so great a number of officers as would be required in a more diffuse system of collection, operating immediately on purchasers and consumers. Besides, Hamilton contended, such a plan would transfer whatever inconveniences might be incident to the collection from a smaller to a greater number of persons.

Although the excise finally imposed was two cents less per gallon than was collected by the State of Pennsylvania just before adopting the constitution, the inhabitants of the western part of the State refused to obey the law. The officers appointed to execute it were so seriously intimidated that they abandoned their posts. An address written by Hamilton, explaining the law, and seeking to reconcile the discontented, was circulated. No good effect followed. A proclamation issued by the President was the next step taken by the government. He exhorted all persons to desist from any proceedings tending to obstruct the execution of the laws, and invoked the aid of the magistrates to bring offenders to justice. But the proclamation was disregarded as generally as the address issued by the secretary had been. Many of the magistrates, instead of co-operating with the officers of the Federal Government to maintain the laws, encouraged resistance to them. Meetings were held at Pittsburgh and elsewhere, and on these occasions resolutions were adopted, tending to increase the discontent, and



encourage resistance to the execution of the law. Some of these resolutions went so far as to declare all excise collectors infamous; and destruction to their life and property was threatened. Among the persons who encouraged opposition to the government was Gallatin, subsequently secretary of the treasury. The spirit of rebellion rapidly spread and intensified until the summer of 1799, when an effective measure was put forth to suppress it. A strong military force of fifteen thousand men was raised, and placed under the command of Hamilton, who marched through the insurrectionary district, and speedily quelled the disaffection with only very slight loss of life.

During the next session the law was modified in several ways. A few members favored its repeal because it abridged the liberties of the people; but the need of money was so great, and the expediency of taxing spirits distilled at home, to some extent, was so generally acknowledged, that Congress wisely persisted in continuing a tax on this article. Mutterings and grumblings were indeed heard after amending the law; but the government enforced it, and collected a large revenue therefrom. The law was frequently modified; and within five years from its enactment, the duty had been changed to ten cents per gallon on spirits distilled from molasses, and seven cents on spirits distilled from grain and fruit. These duties were laid on the lowest proof, and rose as high as eighteen and twenty-five cents per gallon on the highest proof. Country distillers who used domestic materials only had the option of paying a similar duty, or a yearly duty of fifty-four cents, or a monthly duty of ten cents, for every gallon of the capacity of their stills.

The duty on spirits distilled from domestic materials was collected from a very large number of manufacturers, scattered over a vast and thinly-settled country; while the duty on spirits distilled from molasses was more easily collected, because the manufacture of it was confined to a few individuals who resided at the seaports. In consequence of the difficulty and expense attending the collection of the former tax, Gallatin, in his "Sketch of the Finances," which appeared near the close of 1796, suggested the expediency of laying a moderate monthly or yearly duty on the stills, proportionate to their capacity; repealing the option, at that time given, to pay in proportion to the quantity distilled.

Gallatin believed that several beneficial results would follow, if the law were thus amended. The difficulty of discovering the quantity of spirits manufactured caused evasions of the duty equally injurious to the revenue, to the fair trader, and to the morals of the people. A premium, indeed, seemed to be offered by the present law to those who should violate their oaths,—a temptation, perhaps, too strong to be always resisted by all the individuals to whom it was presented. To prevent such evasions, it was necessary to create a number of officers, proportionate to the extent of territory and to the number of manufacturers, and to invest them with extensive powers, and to subject the manufacturer to a vexatious but necessary inquisition. But it was very easy to know whether a man distilled or not, however difficult it might be to find out the quantity of spirits which he distilled. The number of officers needed, therefore, would be comparatively few. Every distiller felt interested in having

all pay the duty who were properly subject to it. By the present plan, he could by no means check the frauds committed by others: by the plan proposed, he would contribute to secure the public against them. In every point of view, the expense of collection would be diminished; evasions of the duty would become almost impossible; and the distiller, after having paid for his license, would be liberated from the visits of the officers, and from the duty, however inconvenient, of keeping correct books and accounts.

The only objection to the mode of thus paying a duty on stills was the possible unequal operation of the measure. It would fall more heavily on small stills, which were generally owned by men having less capital, and located in less advantageous situations. This difficulty, Gallatin suggested, might be remedied by making the duty somewhat less, in proportion to their capacity, on stills under a certain dimension. It was further remarked, that, however improper and dangerous it might be for the government to pass laws with the view of giving a certain direction to industry and capital, it could not be doubted that the effects of a provision which tended gradually, and without any injury to the property then invested in that business, to diminish the immense number of small distilleries, would prove favorable to the general wealth and to the morals of the people. At the next session of Congress the law was amended in accordance with Gallatin's suggestion, and a duty was laid on the capacity of the still. This mode of collecting the duty continued until the repeal of all internal duties in 1802.

As additional taxes were necessary, the retailers of wines and foreign spirits were required to pay five dollars a year for a license to continue their business. This regulation applied to all persons except tavern-keepers and apothecaries who sold wines in less quantities than thirty gallons, or two-thirds that quantity of spirits.

In regard to this tax, Gallatin acutely remarks, "The object of a duty upon the retailers of any article of consumption which is already taxed is to increase that tax, but, by dividing it, to diminish the temptation of smuggling, and the evasions of the duty." The duties upon the importation of wines and spirits at the time he wrote his "Sketch" amounted annually to nearly \$2,000,000. For licenses \$60,000 were obtained,—"only an additional three per cent on the duty; not one per cent on the article." To Gallatin it did not seem that so trifling an addition, less than one per cent per gallon on articles which paid at least twenty-five per cent duty, could possibly encourage smuggling. He declared that the duty on licenses fell very unequally, as all retailers paid the same, whether they sold much or little. It operated partly as a tax on consumption, and partly as a premium to large retailers. He thought, therefore, that the sum would be more justly and conveniently raised on the importation of the articles. But an annual license-fee so small as five dollars did not cause much hardship or inequality. To the retailers selling only a small quantity the duty could not have seemed heavy; and, of course, the more prosperous ones could not have felt any sensible diminution of their income.

Notwithstanding the heavy duties imposed, the con-



sumption of domestic and imported spirits did not decrease. Had such a result followed, Gallatin declared the duty would have probably been lowered; for "the object of the government in laying these and other duties on spirits was not to check the use, but to raise money."

In 1794 a tax was laid on carriages. An exemption was made of those employed chiefly in husbandry and in transporting goods. The tax was not uniform, but varied from one to ten dollars on each carriage. Congress very keenly debated whether the tax was not a direct one, within the meaning of the constitution, which declared that no capitation or other direct tax should be laid, unless in proportion to the census or enumeration for taking which that instrument had provided. Many refused to pay on that account; and consequently the revenue derived from that source, during the first year of the operation of the law, was much smaller than had been expected. Finally, the Supreme Court was asked to decide the question. The Act was adjudged constitutional.

Gallatin, when treating of the subject, acutely remarks, "A less vague expression than that of *direct* might have been used in the constitution: as it now stands, it is difficult to affix to it any precise and determinate meaning. The word in itself does not express a positive or absolute qualification, but only the relation of a subject to another. The constitution mentions only one of the subjects, but does not say in relation to what other subject taxes are to be considered as direct. The direct tax is that which falls directly; but upon what? On the person who pays it? On the article taxed? On that general fund intended to

be taxed? . . . The most generally received opinion, however, is, that by direct taxes in the constitution those are meant which are raised on the capital or revenue of the people; by indirect, such as are raised on their expense."

The decision of the court settled the question, and those having carriages covered by the law were obliged to pay. But the officers who attempted to execute it soon encountered a great difficulty in classifying the carriages in a satisfactory manner: consequently, the next year the law was amended, and the various kinds of carriages were described and classified more perfectly. As they were regarded a luxury, Congress acted wisely in taxing them in preference to other things beside spirits.

A duty was laid on sales at auction. Auctioneers were prohibited from selling without a license, and they were required to keep an account of their sales. This duty fell almost wholly on imported commodities, and Gallatin was strongly opposed to it. While the duty on importations was borne equally by the consumer, the auction duty was paid by the importer or some other dealer. Its productiveness was determined by the honesty of the auctioneers, whose temptation to render false accounts was very great.

As the revenues still proved insufficient, a duty was laid on vellum, parchment, and paper used for a great variety of legal writings described in the Act. This Act was exceedingly unpopular. It was associated with a former Act, the odiousness of which was vividly remembered. Its execution was at first delayed; and several modifications occurred during the short period of its existence. "Curiously enough," says Gibbs,<sup>1</sup> the Act "fur-

<sup>1</sup> Vol. i. p. 555.

nished a cause of jealousy to the President, who for some reason supposed it to exalt the powers of the secretary of the treasury at his expense."

Taxes were levied on two other things, — sugar refined within the United States, and snuff. On the former article there was a duty of two cents a pound. In the early days of its production, the manufacturers, aided by the high duty levied on the raw material, supplied the entire consumption of the country. The experiment of taxing snuff was not successful. At first a tax of eight cents per pound was levied. Under this law only a very small revenue was obtained. The tax was then laid on the mills employed in making it, and a very much larger income was received. A drawback of six cents per pound was allowed on the quantity exported. The money withdrawn from the treasury to pay this allowance was greater than the whole tax received from the same source. In truth, snuff was manufactured for the purpose of getting the drawback, which operated as a bounty. The difficulty of rendering the duty equal, from the different situation and capacity of the mills, and from the necessity of allowing a drawback on the exported product, although it was impossible to allow one proportionate to the duty laid on the machinery employed in manufacturing the article, and the evasions practised by hand-mills, — these things moved Congress to suspend the law for one year, but it was never revived.

Yet from all these sources the income obtained by the government was inadequate. It was not so large as the secretary of the treasury had expected it would be. This was owing to various causes. The deficiency in duties on

distilled spirits and stills was caused by the lack of foreign materials which were used before the war, and by the diversion, to some extent, of the capital formerly thus employed, into other industries. Though they were subjected to an internal duty, sufficient time had not elapsed to perfect the machinery for collecting it. But a more serious cause of the unexpected deficiency was the lack of energy in collecting the revenues. The establishment of an effective and productive internal revenue, Wolcott declared, was truly desirable "as connected with a speedy reduction of the public debt;" and no period could be more fit for accomplishing this object than when the internal resources of the country were flourishing in a manner hitherto unprecedented.<sup>1</sup>

Both political parties saw the need of increasing the revenue, and were willing to take steps in that direction; but there was a wide difference between them about the mode of raising it. The Federal party proposed to extend the present system; but the other party, which controlled the House, favored direct taxation. From an opinion, says Marshall,<sup>2</sup> "that direct taxes were recom-

<sup>1</sup> Gibbs's Adm., vol. i. p. 283.

<sup>2</sup> Life of Marshall, p. 596. "Those who can carry their recollection back to the period immediately preceding Mr. Jefferson's administration, or who are familiar with the history of parties in our country, know that it was a favorite doctrine with the Republican party that direct taxes were preferable to a tax on imports, for two reasons. One was, that they were more economical, inasmuch as the importer, being obliged to advance the tax to the government, charged a profit on such advance, as well as on the price of the goods, by which the price to the consumer was proportionally enhanced; and thus more was taken from the pockets of the people than was paid into the treasury. The other reason was purely a political one: it was, that, when taxes were direct, the people would necessarily know



mended by intrinsic advantages, or that the people would become more attentive to the charges against the administration, should their money be drawn from them by nimble means, those who wished power to change hands had generally manifested a disposition to oblige those who exercised it to resort to a system of revenue by which a great degree of sensibility will always be excited." The Committee of Ways and Means, it is true, proposed a slight increase of indirect taxes in some directions: but they expended their energies chiefly in directing the secretary of the treasury "to prepare, and report to the House, a plan for raising two million dollars by apportionment among the several States, agreeably to the rule prescribed by the Constitution; adapting the same to such objects of direct taxation, and such modes of collection, as might appear by the laws and practice of the States respectively to be most eligible in each."

The secretary of the treasury favored direct taxation, not, indeed, as a temporary or sole resource, but as a part of a permanent system which should include the taxation of imports, as well as home productions. Such a system he regarded as more stable than one by which the revenues were derived wholly from imports, or by indirect taxation. Several years before, a plain but clear-brained friend had written to him: "External taxation, unprotected by a navy, must always be in jeopardy. Nor is it

what was the extent of their burdens, and, when they were increased, whereby they would more closely look into the expenditures of the government, and thus check its tendencies to waste and extravagance, which, when taxes are indirect, they may indulge with impunity."—HUNT'S *Mag.*, vol. iv. p. 507, Essay by George W. Tucker. For Gallatin's opinions, see Section I. of his *Sketch of the Finances*.

safe to leave the Union without any arrangements for direct taxation, as it will take years to devise the plan and put it into operation, and public credit will sink when most wanted. The system of finance certainly ought to be a complete whole, and the laws of revenue to embrace the whole circle of the great revenue objects, were it only to have such revenue laws in existence for future use." Wolcott's father, at the same time, wrote in a similar strain: "I perceive an idea has been given out, that all national pecuniary provisions could be made which are necessary, even including the State debts, without a direct taxation. I think, with all my ignorance of the subject, that it would be very strange if it could be effected without a land-tax: but, if it can, I hope it will never be attempted: for, unless there shall be a direct taxation which shall affect every man of property, the people in general in this country will not have the least apprehension of the existence of a national government, and consequently have no regard for it. A direct taxation, as odd as it may seem, is essentially necessary to induce a people to love their government." Six years afterward Chauncey Goodrich wrote to the senior Wolcott, "It is idle to imagine that the public debt can be discharged by imposts, and a paltry tax on stills, snuff, carriages, etc. If we are sincere in the business, — or, indeed, in having a government, — we must be willing that the United States shall, by a certain mode of collection, come upon the body of property." Very many at that day held similar opinions concerning the expediency of imposing a direct tax.

As the resolution requiring the secretary to prepare a

plan did not specify the amount of the proposed tax, Wolcott assumed a sum that should be sufficient, with the revenue accruing from other sources, to pay the indebtedness of the government as it matured, and all other expenses connected with its maintenance. To arrive at a correct estimate of the amount required for this purpose, a concise statement of the finances was presented. The amount required yearly, until 1800, was \$7,429,398.99. Of this sum, \$2,700,000 were allowed for the probable expenditure of the government, which, however, was likely to swell by the gradual increase of the nation, and by future contingencies. The revenues already established amounted to \$6,200,600: therefore a further sum of \$1,228,794.50 was required. Allowing fifteen per cent for the expense of collection and contingencies, he proposed a direct tax of \$1,484,000. Wolcott then described several modes of imposing the tax. The first mode was, "that an Act of Congress should be passed, declaring the quotas of the different States, assigning a time for payment into the treasury, and proscribing, in cases of delinquency, that the said quota should be assessed and collected by the authority of the United States, upon the same objects of taxation, and pursuant to the same rules, by which the last taxes were assessed and collected by the respective States;" the second, "that the Act of Congress should direct that the proposed tax should be assessed and collected, under authority of the United States, upon the same objects of taxation, and pursuant to the rules of collection, by which taxes are collected by the States respectively;" and the third, "that the Act of Congress should define certain objects of taxation, and principles of

assessment, according to which the proposed tax should be assessed in all the States, to be collected according to uniform regulations.”

Wolcott recommended the third plan, singling out lands and houses for taxation. The former he proposed to tax *ad valorem*; while houses, excluding in value those generally occupied by farmers and laborers, should be distributed in each of the States into three classes, according to their value, and taxed uniformly in each class at specific rates. Houses in general, and of such description as should be determined by law, he proposed to tax at one uniform rate.<sup>1</sup>

Early in January<sup>2</sup> the Committee of Ways and Means reported in favor of a direct tax on land and slaves. Congress discussed the subject; but, toward the close of the session, Wolcott wrote to his father, “The conduct of Congress is a political phenomenon over which I would, if possible, draw a veil; but it cannot be concealed that there has been no system, no concert, no pride, no industry. . . . Nothing will probably be done this session on the subject of direct taxes. All men know that a tax was indispensable. There has, however, been so much said formerly against direct taxes, that but few have the courage to speak out. I have, however, done my duty. I know the tax to be necessary, the plan I have proposed a good one, and, if adopted, would not only establish the

<sup>1</sup> Wolcott's report was very elaborate: it described the system of direct taxation in each State, the principles which should be observed in creating a national system, the effect of the system on the objects to which it should be applied, beside other important features. Made to the House, Dec. 14, 1796, 1 Finance, p. 414.

<sup>2</sup> 1797.



government and public credit more than any one measure, but would lead the States to improve their own systems. Moreover, it would not be generally unpopular. The people have more sense, patriotism, and justice, than to complain. They wish to have the debt extinguished, and they are desirous of seeing the national establishments equal to the maintenance of the rights and honor of the country. In short, I know that the measure will be adopted, and with the general consent of the people." Wolcott was right in his gloomy surmising, for Congress adjourned without adopting the much-needed measure. Hamilton regarded a house-tax and an extension of internal taxes more expedient than a direct tax. In a letter he wrote to Wolcott was enclosed a rough sketch of a building-tax. "The more I reflect," he says, "the more I become convinced that some such plan ought to be adopted, and the idea of a tax on lands ought to be deferred."

At the next session the Committee of Ways and Means reiterated the necessity of raising \$2,000,000 by a direct tax on lands, houses, and slaves. Though exceeding the amount required at the moment, it was small enough, considering the future needs of the government.

The tax was apportioned among the several States on the enumeration of the census of August, 1790, when the whole representative number, including three-fifths of the slaves, was 3,650,250. It was proposed that the tax be assessed as follows: —

1st, On dwelling-houses, to be distributed into nine classes, and taxed uniformly in each class.

2d, On slaves, to be taxed uniformly.

3d, On lands, to be taxed at such rate, *ad valorem*, in

each State, as, with the sums assessed on houses and slaves, would produce the entire amount of the sums apportioned among the respective States.

According to the estimates, the tax on houses, as proposed, would produce . . . . .	\$1,315,000
Taxes on slaves . . . . .	228,000
Leaving to be raised, by an assessment, <i>ad valorem</i> , on lands, the sum of . . . . .	457,000
	<hr/>
	\$2,000,000

Bills were subsequently reported, providing for the valuation of lands and dwelling-houses, the enumeration of slaves, and for the levy and collection of the direct tax. They did not pass, however, until July. During the summer the preliminary machinery for the assessment and collection of the tax was prepared. At the next session several amendments to the law were suggested by Wolcott, which were adopted. Among other alterations, the President was authorized to increase, whenever necessary, the salaries of the officers, the smallness of which had prevented the government from getting suitable persons to fill them.

Early in the session of 1801 an attempt was made to repeal the law, notwithstanding the opposition of the Committee of Ways and Means. One of the leading purposes at the time of enacting it was to organize a system for laying direct taxes in case the government at any time should be obliged to resort to them. To relinquish the design after incurring so much expense would have proved the fickleness of Congress. Though it was hoped that no more direct taxes would be needed, yet it was

impossible to decide the question definitely. But the attempt to repeal the law failed, and the valuations were finally completed. Of the tax of \$2,000,000, imposed by the law of 1798, the sum of \$734,223.97 was collected during the year 1800, and the remainder was received subsequently.

The expense and number of officers employed in collecting the internal revenue formed a topic for unfavorable criticism by the party opposed to the administration. Gallatin, in his "Sketch of the Finances," evinced his usual acuteness in dealing with the subject. A few months before publishing his work, the commissioner of internal revenue, Tench Coxe, had made a report thereon, in obedience to a resolution of the House. Sixteen supervisors, twenty-two inspectors, two hundred and thirty-six collectors (fourteen of whom were also employed in collecting impost and tonnage duties), and sixty-three auxiliary officers, composed the entire force engaged in collecting the internal revenues of the government.

The expense of collecting the duty on spirits distilled from domestic materials was much larger than on spirits distilled from molasses. The expense, so Gallatin said, was thirty-four per cent in the former case, and fourteen and a half per cent in the latter. He therefore maintained that it required no argument to show that a tax, the collection of which cost more than thirty per cent of the amount received, was a bad one; and no doubt could remain of the propriety of repealing it, and substituting any other in its stead, if it were not connected with the tax upon imported spirits. The amount collected from these sources was nearly one and a half million dollars; and

there could be no doubt that it would be in some degree affected by total exoneration of the tax now paid on the domestic manufacture. He therefore thought it was more advisable, under the present circumstances, to modify the most exceptionable part of the law, — that which related to spirits distilled from domestic materials. The modification proposed by him was a duty on the stills, which was subsequently laid.

The expense of collecting duties on sugar, and other articles included within the scope of internal taxation, was not so great, in proportion, as on spirits distilled from domestic materials. The duties on licenses to retailers of wines and spirits, and sales at auction, were only two and one-half per cent: those on sugar refined and on pleasure-carriages were twice as great. The tax on snuff was collected with so much difficulty, that, after a short attempt, its collection was suspended.<sup>1</sup> The expenses on all these things, so Gallatin reckoned, were about eighteen per cent; but the reader should consider that the arrangements for collecting it in the beginning were imperfect; and during the next five years, while the revenues were nearly doubled in productiveness, the expense of collection was no greater, — in truth, was somewhat lessened.

Concerning the number of officers employed, the commissioner remarked, that, in comparison “with facts in the scene most adjacent to the seat of government, these were less numerous than the corresponding officers of the States. The collectors alone,” he continues, “of the

<sup>1</sup> Short History of the Nature and Consequences of Excise Laws, Phil., 1795, p. 56.



revenues of the State of Pennsylvania, all of which are of course internal, are believed to be very many more in number—as well, in fact, as in proportion to the respective aggregates of the taxes—than all the officers of every description employed in that district to superintend and collect the six internal duties of the United States.”

There was, indeed, one conclusive argument in favor of laying and collecting these revenues. The excise was part of the system by which Hamilton sought to re-enforce the import duties, and to prepare the way for collecting a revenue in time of war, when the usual sources of taxation should become dry. It was desirable to develop the system as rapidly as possible, with the least injury to the interests of the people, to test their tax-paying power. The taxes had been laid first on imports, followed by internal taxation; and lastly, a direct tax was imposed. Some people squirmed in bearing the burden; but what would they have thought had they lived in “the land of Gex” during the days of Voltaire, when the inhabitants paid a land-tax, poll-tax, twentieth, seigneurie, impost duties, tobacco-tax, salt-tax, special salt-tax, cotton-tax, and road-tax,—the latter in labor?

With the advent of Jefferson’s administration, all internal duties were repealed. Gallatin, who was the ablest financier in his party, did not recommend their repeal; but the Committee of Ways and Means did, of which Randolph was chairman.<sup>1</sup> Their mode of treating the matter is proof of the absence of that careful precision which marked the official conduct of Gallatin, Wolcott, and

<sup>1</sup> Report on Internal Duties, March 8, 1802, 1 Finance, p. 734.

Hamilton. Randolph estimated the duties accruing from this source for the year 1800 "at a sum not exceeding \$710,000," and that they were "chargeable with the expense of collection, equal to \$120,000." The truth was, the sum collected for that year was \$772,322.59, excluding the income from stamps; and the expense of collection, \$88,161.06.

The inference which Randolph desired to have drawn from the following statement in his report is very apparent: "To produce, therefore, into the treasury, somewhat less than \$600,000, an expense must be incurred more than equal to a fifth of that sum." The fact was, that less than one-ninth was spent in collecting the internal revenue. The chief reasons urged for abolishing this portion of the public revenue are thus stated in the report:—

First, "In the vexation and oppression of many of them, some of which are peculiarly obnoxious to our citizens" (the tax which the committee doubtless had most directly in mind was that for distilling spirits from domestic materials,—a source whence \$372,561.60 was derived during 1800, and collected from twenty-two thousand stills); secondly, that such a tax was "in the nature of excise, which is hostile to the genius of a free people;" and, thirdly, because so long as the duties remained, "their tendency was to multiply offices, and increase the patronage of the executive. This effect alone would forbid the retention of the internal taxes, and a reduction, to an equal amount, of the impost on articles of the first necessity: since, by that measure, not one of the host of officers employed in their collection would be reduced."

The truth appears to be, that the repeal of these taxes was a party necessity. The Republicans had promised to repeal them; and the pressure to do so was too great to be resisted, although Gallatin saw how dangerous was the step. During the war of 1812 his party re-imposed all of them, including even the direct taxes.

## CHAPTER VII.

## THE FIRST UNITED-STATES BANK.

A NATIONAL bank was included in Hamilton's scheme for restoring the finances of the country. Long before, in a letter to Morris,<sup>1</sup> he had not only given weighty reasons for founding a bank, but had accompanied them with a plan of the institution itself. The necessity for its existence cannot be measured by the present situation of the government. At that time there were only three banks in the country, whose capital was about two million dollars. Their bills were not a legal tender, and only a meagre supply of gold and silver existed in the country. Indeed, including the circulation of the banks, money was so scarce, that the only way of effecting not a few exchanges was by the primitive method of barter. More money, therefore, was greatly needed; and the government daily suffered for want of it. Confined to the use of gold and silver, and without a national bank, the government incurred considerable expense and difficulty in transferring money from place to place.<sup>2</sup> A national bank was imperatively required, that should fulfil both purposes, as well as many others, among which may be

<sup>1</sup> Hamilton's Works, vol. i. p. 116.

<sup>2</sup> Gallatin's Consideration on the Currency and Banking System, Writings, vol. iii. p. 323.



mentioned the temporary loaning of funds to the government.

A bill for establishing the bank was introduced, whereupon a very lengthy debate ensued.<sup>1</sup> The discussion raged chiefly around the points of its constitutionality and expediency. The bill finally passed, and was signed by the President, after getting a written opinion from each of his cabinet officers concerning its constitutionality. The capital of the bank was fixed at ten million dollars, for one-fifth of which the government could subscribe. Its existence was limited to twenty years, and it was forbidden to charge more than six per cent interest. The subscriptions of individuals were payable, one-fourth in gold and silver, and three-fourths in the six-per-cent stocks of the government then bearing interest, or in three-per-cents at one-half of their nominal value. The subscription of the government was to be paid from borrowed money, which was immediately to be reloaned, and finally reimbursed in ten annual instalments, with interest. No other loans exceeding \$100,000 were to be made to the United States without authority of law.<sup>2</sup> The bank was authorized to establish offices of discount and deposit in the several States, and its notes were to be received in payment of dues to the government. It was authorized to sell the government stock received for subscriptions, but not to become a purchaser.<sup>3</sup> Of the capital, \$5,700,000 were reserved for the chief bank, which

<sup>1</sup> A very full account of the debate is contained in Clarke and Hall's *Leg. and Doc. History of the Bank of the United States*.

<sup>2</sup> See Act, March 3, 1795, 3 Cong., second session, chap. 45, sect. 19.

<sup>3</sup> Act, Feb. 25, 1791, 1 Cong., third session, chap. 10.

was to be established at Philadelphia, while the balance, \$4,300,000, was to be divided among eight branches, that were to be established in the principal cities of the Union. The entire capital was immediately subscribed, and application was made for four thousand additional shares within two hours after the books for subscriptions were opened. Oliver Wolcott was offered the presidency, but declined the offer; and Thomas Willing of Philadelphia was elected.<sup>1</sup>

Not only would the operation have been useless, but also disadvantageous, to the government at that time to pay for its stock by drawing money from Europe, and then immediately to remit it as a loan from the bank. In doing this, there would have been a loss on exchange in consequence of overstocking the market with bills, and a loss in interest by the delays incident to the operation, beside necessarily suspending the useful employment of the money. To the bank alone could any benefit have accrued in proportion to the delay in applying the fund to its primitive destination. How, then, was the end to be accomplished, of paying the subscription-money in order to vest the government with the title to the stock, of getting the means to make payment from the foreign fund (which, of course, must first be placed in the treasury before it could be used), and replacing the same? for none of these steps could be omitted without violating the law. The following plan was devised and executed. The treasurer of the United States drew bills on the American commissioners in Amsterdam for the sum required to pay the bank, which were purchased by it.

<sup>1</sup> Gibbs's Adm., vol. i. p. 68.

By issuing warrants in favor of the treasurer on the bank, the amount was placed in the treasury. Other warrants were subsequently issued on the treasury in favor of the bank for the amount of the subscription-money, which was receipted by it as paid. By this operation the government paid for its stock. Immediately the bank loaned \$2,000,000 to the government in fulfilment of a stipulation in the act of incorporation, and paid it by redelivering the bills which it had purchased from the government. These bills were then cancelled; so that, in fact, no money was drawn from the foreign fund during the operation of paying for the stock.<sup>1</sup>

It may be noted, however, that, while the stock had been obtained in such a manner as to satisfy the law, the real operation consisted in getting the stock by a promise that the two millions to be given therefor should be paid in ten annual instalments of \$200,000 each. Let us trace briefly how the government executed its promise. The first instalment was due the 1st of January, 1793. In November of the previous year, Hamilton submitted a proposition to the House respecting the matter. But Congress failed to act in time; so Hamilton left a deposit for the amount with the bank, which had the effect of suspending interest on the instalment. Congress took no action until the 2d of March, when the secretary was authorized to pay the instalment with foreign money. The attorney-general, however, decided that he could not apply the foreign fund in that way until the 25th of June; so that not until the 20th of July following was the first instalment paid,—a delay of more than six

<sup>1</sup> Hamilton's Works, vol. iv. pp. 365, 451.

months. Hamilton's inability to provide funds from any other source, or at an earlier date, reveals the weakness of the treasury at that period. The second instalment was paid in the same manner. Congress was duly notified to make provision for paying it, but acted more slowly than before; for not until the 4th of June, 1794, was any action taken. Hamilton resorted to the same expedient for stopping interest, and securing the instalment, — by making a deposit for the amount due. The next year Congress acted more promptly,<sup>1</sup> though too late for making payment at the time specified. The next two payments were not made until 1797, when a portion of the stock was sold, and \$400,000 were applied in paying the fourth and fifth instalments. The remaining payments were made with more regularity, and with less difficulty.

The new government had not been going long, before the necessity arose for getting a temporary loan to meet accruing obligations. Congress authorized the President to empower the secretary of the treasury to make loans for paying the appropriations of the year, and to pledge the duties on imports and tonnage for their repayment.<sup>2</sup> Such an anticipation of the revenue could not be avoided, if the expenditures of the government were to be paid when they became due. Though an old custom with other governments, the only justification for the step was a great and immediate necessity. At the starting of the government, there were no funds; and, though steps were soon taken to raise a revenue, of course, no money at once flowed into the treasury, while its obligations soon began

<sup>1</sup> Jan. 8, 1795.    <sup>2</sup> Act, March 26, 1790, 1 Cong., second session, chap. 4.



to accrue: hence the necessity of borrowing for a short period, until the revenue increased sufficiently to maintain the government. Grave as was the situation of the government at the outset, several unexpected accidents required the expenditure of considerable sums before there was time to get them by additional taxation. Thus these temporary loans, which were derived from the bank, continued for a longer period than was expected in the beginning, and caused no little difficulty to the treasury before they were discharged. Gallatin declared that this was poor financiering, because the government was burdened with more interest. Little did he dream, when pronouncing this criticism, that within fifteen years he would suggest the issuing of treasury notes, which were essentially loans of the same nature.<sup>1</sup>

These loans were of three distinct kinds. They were in anticipation of the taxes for current expenditures. The last of these was made in 1795.<sup>2</sup> The sinking-fund commissioners were authorized to borrow money, not exceeding \$1,000,000 annually, in anticipation of the revenues, to pay interest. Each loan of this kind was to be reimbursed within a year from the time of making it. Loans were also founded on the revenues, but the money received was applied for a specific rather than a general purpose. The first loan of this kind was to cover the expense of an Indian war. Congress appropriated \$150,000 from the surplus revenues of 1791, and \$523,500

<sup>1</sup> Sketch of the Finances, Writings, vol. iii. p. 105 et seq.

<sup>2</sup> Act, March 3, sect. 6. There was another loan for two million dollars, in anticipation of the direct tax. Act, July 16, 1798, 5 Cong., second session, chap. 84.

from accruing duties, for this purpose. The President was then "empowered to take on loan, on account of the United States," the latter sum, which was to be reimbursed from the surplus of duties. Accordingly, Hamilton contracted with the bank for a loan of \$400,000.<sup>1</sup>

Another loan for \$1,000,000 was authorized March 20, 1794.<sup>2</sup> It was a part of the settling-price with Algeria. The Algerine corsairs had preyed on American commerce, inflicting serious damage; and a number of Americans had been taken prisoners, and carried away to the Land of the Moon. Two ways were suggested for rescuing them. One way was to build and equip a navy, and declare war against Algeria: the other was to ransom the prisoners. The latter was the cheapest: the former was the most spirited. The desire, or perhaps necessity, for economy, outweighed the desire to revenge the insult sustained by the nation. Only \$200,000 of the sum needed to pay the pirates could be obtained, which was borrowed of the Bank of New York at five per cent interest. The 4th of February, 1795, the President submitted the subject to the consideration of Congress. The House referred the matter to the secretary of the treasury to ascertain at what price the desired loan could be procured. The result of his negotiations was, that the Bank of the United States offered to lend \$800,000 in six-per-cent government stock, if certain duties were pledged for payment. The stock was borrowed, and the house of Barings was designated to negotiate the sale of it, and to remit the proceeds to Gen. Humphreys, who was con-

<sup>1</sup> Act, May 2, 1792, 2 Cong., first session, chap. 27, sect. 16.

<sup>2</sup> Act, 3 Cong., first session, chap. 7.

ducting the negotiations for the government. Before the arrival of the stock in England, the market-price had fallen, and it was sold at a sacrifice. The secretary of the treasury was denounced as the author of the whole transaction, including the treaty, by the party opposed to him. The members of both parties had voted for the treaty; the terms of the loan had been communicated to the committee appointed by Congress to consider the subject, and approved by them; and the bill, which was the outcome of their consideration of the matter, was passed without opposition. The measure could have been easily defeated by the party who denounced the action of the secretary, for they constituted the majority. There was no ground whatever for complaining of Wolcott's conduct.<sup>1</sup>

The third loan of the bank was for \$1,000,000. It was authorized at the same time as the Algerine loan.<sup>2</sup> Differences multiplied and intensified, first with Great Britain, and afterward with France; and more money was needed to prepare for war than could be raised immediately in the ordinary manner. The next loan of the bank was for \$2,000,000, which was authorized in December, 1794.<sup>3</sup> The rate of interest was five per cent. The money was spent in preparing for war. In February<sup>4</sup> of the following year, another loan for \$800,000 was authorized, to reimburse the bank for a similar sum borrowed

<sup>1</sup> Ellsworth's Letter to Wolcott, March 8, 1796, Gibbs's Adm., vol i. p. 306. *Ibid.*, pp. 141, 188, 320, 434.

<sup>2</sup> Act, March 20, 1794, 3 Cong., first session, chap. 8.

<sup>3</sup> Act, Dec. 18, 1794, 3 Cong., second session, chap. 4.

<sup>4</sup> Act, Feb. 21, 1795, 3 Cong., second session, chap. 25.

the year before. A month afterward<sup>1</sup> the government was authorized to borrow the money appropriated for increasing the naval armament, and other purposes connected with the army and navy. Under this authority, \$1,000,000 were borrowed, — one-half in April, and the balance in October. On the same day<sup>2</sup> a law was enacted for the support of the public credit and the redemption of the public debt. In January of the following year, therefore, the commissioners of the sinking-fund borrowed \$500,000 of the United-States bank to pay the interest on the public debt. The same year,<sup>3</sup> also, under a law which empowered them to borrow not exceeding the sum just mentioned, to pay any loan due to the Bank of the United States or the Bank of New York, \$320,000 were borrowed of the latter institution. One other loan of \$200,000 was made by Wolcott, of the United-States bank, the last of December, 1798.

Thus, from the beginning, the Bank of the United States was very accommodating to the government. But the loans were not promptly paid: the balance grew larger every year. At the end of 1792 the amount was \$2,556,595.56, which increased to \$6,200,000 three years afterward.<sup>4</sup> Both Hamilton and Wolcott had urged the increase of taxation as the true remedy for preventing an accumulation of indebtedness, but Congress was very slow in applying it. The bank became impatient. The loan of so large a portion of its funds to the government

<sup>1</sup> Act, March 3, 1795, 3 Cong., second session, chap. 46.

<sup>2</sup> *Ibid.*, chap. 45.    <sup>3</sup> Act, May 31, 1796, 4 Cong., first session, chap. 44.

<sup>4</sup> See Otis's Report on the Condition of the Treasury Department, Jan. 28, 1801, 1 Finance, p. 690.



crippled its operations. The expedient proposed by Wolcott was to commute the debt into a funded domestic stock, bearing six per cent interest, and irredeemable for such a period as would invite purchasers at par. A bill was introduced into the House, authorizing the commissioners of the sinking-fund to issue six-per-cent stocks to the amount of \$5,000,000, which they were restricted from selling below par, the proceeds of which were to be paid to the bank. The stock was to be redeemable in 1819. In consequence of delaying taxation, the credit of the government had been weakened; and the stock could not be sold at par when the bill passed the House, and the directors of the bank saw very clearly that the bill would furnish no relief. They addressed a letter to the secretary of the treasury. "Public funds," said the directors, "like other property, are exposed to feel the impression which contingent circumstances operate upon its value: a stipulation, therefore, that it shall not be sold but at a given price, in order to extinguish the debts contracted with the bank, is an illusory provision, and places the demands of the institution on a very unsafe and unsatisfactory footing. It is likewise opposed to the practice of all nations habituated to the support of public credit, under the operation of a funding-system. They therefore cannot but view a conditional arrangement, by which the bank may be compelled to wait an indefinite period of time for payment, as an infraction of a contract, and incompatible with the justice of their country. In bank operations, where punctuality is so essential, and therefore so strictly observed, there is but little difference betwixt

a delay and a refusal of payment."<sup>1</sup> They could get no relief by purchasing the stock, even at the rate specified, though not worth so much, because the charter precluded their doing such a thing.

The next day Wolcott addressed a letter to the Senate, stating that the bill with this restriction would not furnish relief. As there was no possibility of obtaining the money abroad, nor of Congress providing a sufficient revenue, he suggested the necessity of giving the commissioners power to obtain loans unclogged by any conditions which could possibly occasion a failure of public credit. The Act, therefore, was modified. Not more than one-half the stock could be sold under par; and, as a final resource, the commissioners were authorized to sell the bank-shares for the same purpose.

Even thus amended, the Act was not what it ought to have been. The fact cannot be denied, that the majority in Congress, who were now opposed to the administration, did not care to relieve the government from its financial embarrassments. They granted appropriations without hesitation, but refused to increase the taxes, which was the true remedy. Had this step been taken, these temporary obligations would not have multiplied so rapidly. But they declined to do so; and, when no way was left except to fund them, Congress did this so slowly and ineffectively, that the good opinion hitherto entertained of the honesty of that body was shaken.<sup>2</sup> Chauncey Goodrich, one of the most prominent and fair-minded members

<sup>1</sup> Communication to Senate, May 11, 1796, 1 Finance, p. 412.

<sup>2</sup> Gibbs's Adm., vol. i. p. 346. Act, May 31, 1796, 4 Cong., first session, chap. 44.

of the House, wrote concerning the plan of funding the bank-loans, "If this operation had been adopted early in the session, the stock could now have been sold at or above par. The delay and the wound to public credit, from the preposterous conduct of the House during the session, has created some embarrassments to a successful administration of the finances."<sup>1</sup> Three weeks later he wrote, "The most serious embarrassment is in the treasury department, owing to the perverse and ruinous delay of the House of Representatives in not seriously and early adopting the system devised by the secretary of the treasury: that, I have before advised you, was to create stock to pay the anticipations at the bank. Two months ago stock would have sold at par: now that can't be done. The Senate have given an unexpected and unfortunate direction to the business."<sup>2</sup> What that turn was, we have just described.

The new stock failed to attract purchasers. After several months had passed, only \$80,000 had been subscribed, and there were no more subscriptions. So the commissioners were compelled to sell a portion of the bank-stock to reimburse the bank. Hamilton denounced the action of Congress, and wrote to Wolcott, "I shall consider it as one of the most infatuated steps that ever was adopted."<sup>3</sup> Of the five thousand shares owned by the government, twenty-one hundred and sixty were sold at twenty-five per cent advance, or for \$500 per share. The sum received, \$1,080,000, and also \$120,000 obtained from the sale of the new government stock, were paid to

<sup>1</sup> Letter to Oliver Wolcott, May 6, 1796, Gibbs's Adm., vol. i. p. 336.

<sup>2</sup> *Ibid.*, p. 339.

<sup>3</sup> Works, vol. vi. p. 143.

the bank. Shortly afterwards six hundred and twenty shares more were sold for \$304,260.<sup>1</sup> After that period the government made more strenuous efforts to reduce its indebtedness to the bank, but several years elapsed before it was finally discharged.

The opposition which was shown to the establishment of the bank<sup>2</sup> continued throughout its existence. One of the earliest charges brought against Hamilton, after accepting office, was that he displayed favoritism toward the bank in drawing foreign bills, and depositing the proceeds there solely for its benefit. He contended that the funds were drawn to purchase a portion of the public debt, — an application of the money which was “productive of positive and important advantages.” Hamilton completely refuted the charge by showing that the larger portion of the bills had been drawn by the banks of North America and New York, and whatever benefit had accrued from the operation was gained by them. When the national bank was established, it was understood that the public deposits would flow into it; yet they went there gradually, and not by any sudden alteration of the current. Indeed, Hamilton sought to remove them by way of payments, rather than by direct transfer. So far did he succeed in this intention, that he declared a cautious regard had been paid to the convenience of the former institutions, and the reverse of a policy unduly solicitous for the accommodation of the

<sup>1</sup> For account of sales of shares, see 1 Finance, pp. 467-500; 2 *Ibid.*, p. 351.

<sup>2</sup> See *An Inquiry into the Principles and Tendency of Certain Public Measures*, Philadelphia, 1794.



Bank of the United States had prevailed. Indeed, so much had this been the case, that it might be proved, if it were proper to enter into the proof, that a criticism had been brought upon the conduct of the department, as consulting less the accommodation of the last-named institution than was due to the government and to the services expected of it.<sup>1</sup>

Doubtless, many of the criticisms against Hamilton's administration of the finances of the government sprang from ignorance, though not all of them. So long as he remained at his post, his enemies never wearied in assailing him for his dealings with the bank. They were more merciful toward his successor, but even Wolcott was not left wholly to himself. When their party came into power, their jealousy of the institution broke forth. In the autumn of 1802 Jefferson wrote to Gallatin that he should make a judicious distribution of his favors among all the banks, since the stock of the United-States bank was held largely by foreigners; and "were the Bank of the United States to swallow up the others, and monopolize the whole banking business of the United States, which the demands we furnish them with tend shortly to favor, we might, on a misunderstanding with a foreign power, be immensely embarrassed by any disaffection in that bank." On the 12th of July, 1803, he again wrote, "I am decidedly in favor of making all the banks Republican by sharing deposits among them in proportion to the dispositions they show. If the law now forbid it, we should not permit another session of Congress to pass without amending it. It is material to the safety of

<sup>1</sup> Hamilton's Works, vol. iii. p. 413.

republicanism to detach the mercantile interests from its enemies, and incorporate them into the body of its friends. A merchant is naturally a Republican, and could be otherwise only from a vitiated state of things." Jefferson's feeling toward the bank was very much like the feeling of the Jacobites, during the reign of Queen Anne, toward the Bank of England, who looked forward to its destruction as the most probable means of their restoration to power. Jefferson's hostility was mainly rooted in the fact that the managers and stockholders of the bank belonged to the political party opposed to him, and he desired to weaken the institution in order to destroy any influence that it might possibly have in the sphere of politics. Adams says that Gallatin "gently put aside these demonstrations of Mr. Jefferson, and administered his department on business principles, with as little regard to political influence as possible. He looked on the bank as an instrument that could not be safely thrown away; without it, his financial operations would be much more slow, more costly, more hazardous, and more troublesome, than with it: indeed, he was quite aware that its fall would necessarily be followed by much financial confusion; and he had no mind to let such experiments in finance come between him and his great administrative objects. He was therefore, by necessity, a friend and protector of the bank."

Jefferson's hostility to the bank was manifested on another occasion. When the Territory of Louisiana was purchased, Gallatin was desirous of establishing a branch bank at New Orleans. He considered the step of the highest importance; but his chief was vehemently op-

posed to such an extension of the bank. He wrote to Gallatin, "This institution is one of the most deadly hostility existing against the principles and form of our constitution. . . . What an obstruction could not this Bank of the United States, with all its branch banks, be in time of war? It might dictate to us the peace we should accept, or withdraw its aid. Ought we, then, to give further growth to an institution so powerful, so hostile?" These words fell lightly on Gallatin, as will be seen from his reply, written on the same day as Jefferson's letter: "I am extremely anxious to see a bank at New Orleans. Considering the distance of that place, our own security, and even that of the collector, will be eminently promoted, and the transmission of moneys arising from the impost and sales of lands in the Mississippi Territory would without it be a very difficult and sometimes dangerous operation. Against this there are none but political objections; and those will lose much of their force when the little injury they can do us, and the dependence in which they are on government, are duly estimated. They may vote as they please, and take their own papers; but they are formidable only as individuals, and not as bankers. Whenever they shall appear to be really dangerous, they are completely in our power, and may be crushed." Jefferson yielded, and the bank was authorized. Meanwhile, Gov. Claiborne had undertaken to establish a bank there by his own authority. Gallatin was very angry at this proceeding, and wrote a letter to Jefferson condemning the act.<sup>1</sup>

As long as the bank existed, the funds of the govern-

<sup>1</sup> Adams's *Life of Gallatin*, pp. 308, 321.

ment were deposited with it, to the credit of the United-States treasurer. They were considered in the treasury from the time of depositing them, and were subject to his control.<sup>1</sup> In 1802 the balance of the bank-stock owned by the government was sold at forty-five per cent advance. Thenceforth the government ceased to be a stockholder.

During Gallatin's administration of the national finances, once only did he apply to the bank for a loan. The benefits derived from it by the government were neither few nor unimportant. These were stated by Gallatin himself in a communication relating to the renewal of the charter. The first benefit was with respect to the safe-keeping of the public money. This applied not only to money in the treasury, but also to the funds in the hands of the principal collectors, of the commissioners of loans, and of several other officers, and afforded one of the best securities against delinquencies. It was also a very valuable agent in the transmission of public money. As the collections always, in various quarters of the Union, either exceeded or fell short of the expenditures in the same places, a perpetual transmission of money, of purchases of remittances, at the risk and expense of the United States, would have been necessary in order to meet those demands, had not the bank been established, but now all this work was done by it, at its own risk and expense, wherever its branches existed. Another benefit related to the collection of the revenue. The punctuality of payments introduced by the banking-system, and the facilities which it afforded to the importers indebted for revenue bonds, were among

<sup>1</sup> Hamilton's Works, vol. iii. p. 449.



the causes which had enabled the government to collect with so great facility, and with so few losses, the large revenues derived from imports. Lastly, was the aid furnished to the government in the way of loans. During the first ten years of Gallatin's administration, the government had been so prosperous as to meet its obligations without asking the bank for assistance; but previously it "had been eminently useful in making the advances, which, under different circumstances, were necessary." And a similar disposition had been repeatedly evinced, so Gallatin affirmed, whenever the aspect of affairs had rendered it proper to ascertain whether new loans might, if wanted, be obtained.<sup>1</sup>

In regard to accommodating the public, the Republicans complained that at first the bank had been less mindful of their interests than of the interests of persons belonging to the Federal party. The stockholders of the branch in New York and of the Bank of New York were principally Federalists; and "Politicus" says that "the benefit of those institutions was chiefly confined to the adherents of one political sect. Accommodations were carefully withheld or sparingly bestowed upon members of the opposite party. Such as were active, or had rendered themselves obnoxious, in political pursuits, were certain to be excluded from favor; and it became at length impossible for men engaged in trade to advocate Republican sentiments without sustaining material injury." The establishing of the Manhattan Company effected a peaceful revolution; "the business of banking was placed on a more equitable foundation;

<sup>1</sup> March 3, 1809, 2 Finance, p. 351.

and the merchants belonging to both parties, entertaining a reasonable hope of obtaining discounts, exercised their political sentiments with independence.”<sup>1</sup>

In 1808, three years before its charter expired, the stockholders petitioned for its renewal.<sup>2</sup> They were solicitous; for if Congress refused to grant an extension, which was feared, it was necessary to prepare for closing the affairs of the institution. In their petition, they set forth the advantages reaped by the government. They affirmed that the profit on the sale of its stock amounted to more than six hundred and fifty thousand dollars. Referring to the support derived from the government, the petitioners declared that it consisted, not so much in the deposit of public money and public patronage, as in the confidence of the government, founded on a constant knowledge of its interior management and condition; which, in turn, had attracted the confidence of Europe as well as America toward the institution, and conferred upon it a character of dignity and stability, and enabled its directors to set an example of prudence, candor, and impartiality, honorable to themselves, and beneficial to the community.

The bank now formed a piece of the financial machinery of the government almost as important as was the Bank of St. George to the Ligurian republic. This is why Gallatin so strongly favored a renewal of the charter, although a very large portion of his party unfortunately did not. The numerous banks already established under

<sup>1</sup> An Impartial Inquiry into Certain Parts of the Conduct of Gov. Lewis, p. 8.

<sup>2</sup> 2 Finance, p. 301.

the authority of the several States, might, he said, afford considerable assistance to the government in its fiscal operations. There were none, however, which could effect the transmission of public money with the same facility as the Bank of the United States. The superior capital of that institution offered, also, a greater security against any possible loss, and greater resources for loans. Nor was it desirable for the government to be entirely dependent on institutions over which it exercised no control. A national bank, deriving its charter from the national Legislature, would, under every emergency, feel stronger inducements, both from interest and from a sense of duty, to afford to the Union every assistance in its power. On other occasions he pressed his arguments in favor of continuing the institution, while petitions appeared from many quarters asking for the same thing. There was, however, powerful opposition. The fact that foreigners now owned the larger portion of the stock led many to oppose a renewal of the charter.<sup>1</sup> Thus the question drifted on the tide of uncertainty, until the meeting of Congress in December, 1810, when a decision could no longer be delayed. The bank had become a greater necessity than ever to the country; and Gallatin exerted his utmost power to prevent its destruction. "It was no mere matter of party or of personal feeling; the bank at that moment was essential to public safety; to lose it might be a question of national life."<sup>2</sup> Moreover, it was understood that the measure was a test of Gallatin's power, whose unpopularity with a considerable faction of his own party had now become very great. To over-

<sup>1</sup> 2 Finance, pp. 451, 460, 479, 480.

<sup>2</sup> Adams's Life of Gallatin, p. 426.

throw the bank might lead to the resignation of Gallatin himself, — an event which his enemies earnestly desired.

The debate in both branches of Congress was long, able, and bitter. The old question of the constitutionality of the bank was discussed at great length; and its opponents denied that the institution was at all necessary to aid the government in discharging its functions, — that there was a redundancy of capital, which was evident from the rapid multiplying of the State banks. In reply to the assertion that the quantity of specie would be reduced by the exportation of the large amount of its capital belonging to foreigners, it was declared that “nothing could be more absurd.” The danger that in the future the bank would be the centre of a vast political influence, which would be exerted to the injury of the people, was magnified in a very extraordinary manner. The reasons for renewing the charter were stated by no one with more ability and clearness than by Mr. Fiske of New York. One of the ill effects of destroying the charter would be the retiring of a large portion of the circulating medium of the country. This was estimated at fifty millions, twenty-four millions of which would be called if the charter were not renewed. The effect this would have upon the various interests of the country, said Mr. Fiske, could neither be described nor conceived. It would inevitably give a general and heavy shock to all paper credit. And what could be substituted? Of silver and gold there was not enough. From the best estimates, there were not ten million dollars of specie in all the cities and trading-towns; and this, he averred, would be collected by the bank. The prices of all stocks and



property would be depressed; and such a change in the system would occasion great embarrassment, disappointment, and distress. The United-States bank had faithfully collected the revenues; but, if destroyed, how were these to be collected? Through the medium of the State banks? No prudent man, in his individual concerns, would think of doing such a thing. "You discard a faithful, honest, responsible agent, whose integrity and fidelity you have known for twenty years, and you place your estate in the hands and at the disposal of twenty or thirty entire strangers, of whose character and responsibility you know nothing, nor have the means of acquiring any knowledge, and over whose conduct you have no control. Should an individual act thus with his property, he would be deemed to have lost all regard for it, if not considered a madman." Another difficulty was then pointed out, the truth and severity of which the government too soon was to learn: it was the difficulty of finding a convenient medium to transmit from one portion of the country to another. Specie could not be procured; and what State bank-bills, if sent, would pass current in every part of the United States, like the bills of the bank? "Carolina and Kentucky bills are unknown, and would not pass in New York or Boston; and New-York bills would not pass in Kentucky or Carolina. New-England bills do not pass in New York but at a considerable discount. But under the present system, if government have five millions deposited in Boston, and it is required to be paid at New Orleans, a draft is given by the branch in Boston upon that in New Orleans, and the money is paid at the latter place as soon as the mail can travel there."

We shall close this review of the debate with one more extract, the prophetic importance of which will interest the reader, notwithstanding its length.

“It has been urged,” continued Mr. Fiske, “that we have too much paper in circulation. Admit it. The destruction of this bank will increase, not diminish, the quantity of circulating bank-paper; and I consider the embarrassment which must immediately follow the closing of the concerns of this institution as the least of the evils the community will experience from a refusal to renew the charter. Congress may, indeed, prevent the operation of this bank after the 4th of March; but Congress can neither prevent a spirit of trade, nor subdue the passion for speculation: for while we are debating the expediency of destroying this bank, in order to free the country from the mischiefs of an extended bank credit, we find new banks springing into existence in every direction. We have no less than five bills now on our table for incorporating this number of banks in this ten-mile square district. We are told that these applications are an evidence of capital or of corruption; but I consider them rather as evidence of the destroying spirit of speculation, which threatens to stand upon the ruins of the United-States bank till the country shall be overwhelmed with new emissions of paper from these new manufactories. The banks established by the State Legislatures will scramble for the privilege of filling the chasm to be made by the destruction of the Bank of the United States. Already are they preparing for the patriotic endeavor. Our State Legislatures are to be importuned to become bank-jobbers and joint undertakers and copartners in the enterprise. The profits are to furnish revenues sufficient to satisfy both avarice and ambition. Notwithstanding the provision in the constitution, that no State shall ‘emit

bills of credit,' we find almost every State in the Union, interested in banks, authorizing corporations to issue bank-bills, which, so far as they exceed the capital upon which they are issued, are in the nature of bills of credit. Several States own stock in these banks, and, as such stockholders, are responsible for the payment of these bills. Pennsylvania, Virginia, and Vermont are large stockholders in their State banks. New York and North Carolina have also an interest in some of their banks. The States cannot be restrained; nor is it to be wished that they should be prohibited altogether from incorporating banks. But what difficulties are we to experience in resorting to these numerous and conflicting institutions for the collection, safe-keeping, and transmission of our revenues? The deposits of the government will render banking profitable to the favorite bank that receives them. The aid of the government will make this bank superior in funds and credit to any of the others which do not share this solid patronage. This will produce jealousies and collisions of interests between banks in the same State, and thus form cabals against the State and general governments. It will not stop here, but will extend from State to State. If the States and State banks are to regulate trade in the article of paper money, they may prescribe the terms. To give the preference to their own paper, they may exclude that of any other State from circulation among them in the same way that the paper of unincorporated banks is excluded by some States, and bills of a certain amount from others."

The evils depicted so soberly by Mr. Fiske were encountered in due time. The debate in the House was continued for many days; but, when at last a vote was reached, the motion to postpone indefinitely the bill providing for a renewal was carried by one majority. Many

of Gallatin's best friends voted against renewal. All the Federalists voted on his side. His personal enemies turned the scale. The debate was then transferred to the Senate. William H. Crawford appeared there as Gallatin's champion. He supported the charter with such courage, energy, and ability, that he earned Gallatin's lasting gratitude, and made himself the representative of the administration in the Senate, and the favorite candidate of the Jeffersonian triumvirate for succession to the presidency. The longest speech was delivered by Senator Smith of Maryland, covering two days, in which he tried to prove that the whole theory of the usefulness of a national bank was a delusion; that State banks were better depositories of the public money; that the secretary of the treasury was quite mistaken in all his statements about the convenience of the bank, even in regard to remittances and foreign exchanges; that no possible trouble could arise from abolishing the bank; and that the constitutional objection was fatal. Senator Smith's brother was secretary of state, and a bitter enemy of Gallatin; and so was the senator himself. No one strove harder to defeat Gallatin's plans, and to drive him from his post. The vote in the Senate was a tie, — seventeen to seventeen. George Clinton, the Vice-President, whose hostility to the President was generally known, and whose regard for Gallatin was none too strong, decided the question in the negative. Thus the bank was doomed to expire within the time originally limited in the charter. Its destroyers by this act exhibited as dense ignorance of the great worth of the bank to the government and to the people as the emperor Severus did of the sources



of Memnon's music when he ordered the statue to be repaired.<sup>1</sup>

When the fate of the institution was determined, Gallatin directed the collectors of all the chief ports to stop depositing custom-house bonds for collection in the bank, and to withdraw those falling due after the third day of March, 1811, and to deposit them with other banks, which were designated. The deposits were gradually withdrawn; and the government account with the bank was closed the 2d of September, 1811, except a small balance in the branch at New Orleans.<sup>2</sup> When closing the bank, the question was raised, What obligation remains on the part of the government to receive its notes in payment of duties after its dissolution? Congress had not provided for such an event. Gallatin directed the collectors and receivers of public money not to receive any which the bank refused to take from the government, or which could not be conveniently redeemed. At first no serious difficulties arose from refusing to prolong the life of the bank. There was no difficulty in transmitting public funds, and the revenue generally was collected as promptly as it had previously been. In March the Senate were informed that the apprehensions of distress resulting from a non-renewal of the charter were far from realization in Philadelphia. It had long been obvious that the vacuum

<sup>1</sup> The dangers that were apprehended from closing the bank are concisely set forth by Dr Bollman, in the postscript to the second edition of his Paragraphs on Banks; and by Mr. Carey, in his Desultory Reflections upon the Ruinous Consequences of a Non-Renewal of the Charter of the Bank of the United States.

<sup>2</sup> Communication on Public Deposits in Banks, Jan. 8, 1812, 2 Finance, p. 516.

in the circulation of the country, produced by the withdrawal of the notes of the Bank of the United States, would be filled with the issues of other banks. "This operation," said the committee who announced the pleasing intelligence, "is now actually going on: the paper of the Bank of the United States is rapidly returning, and that of other banks is taking its place. Their ability to enlarge their accommodations is proportionately enhanced; and, when it shall be further increased by a removal into their vaults of those deposits which are in possession of the Bank of the United States, the injurious effects of a dissolution of the corporation will be found to consist in an accelerated disclosure of the actual condition of those who have been supported by the credit of others, but whose insolvent or tottering situation, known to the bank, has been concealed from the public at large."<sup>1</sup>

How meagre their vision! They could clearly, though painfully, see the figure of Gallatin in the financial horizon, but hardly any thing else. He covered the whole field. But let us look ahead to the opening of 1812. The circulating capital of the country was concentrated in the large cities, chiefly north of the Potomac, and more than one-fourth was in New England. The Eastern States were flooded with a heavy importation of foreign goods, and specie was sent abroad to pay for them. A much larger amount went the same way to pay foreign shareholders of the bank, who owned a very large portion of its capital. Previously this specie had been slumbering

<sup>1</sup> Clay's Report on the Bank of the United States, March 2, 1811, 2 Finance, p. 486.

in the vaults of the national bank. It now passed through those of the Eastern banks on its way to Great Britain. In the Massachusetts banks, the quantity rose from \$1,700,000 in June, 1811, to \$3,900,000 within a year, and to \$7,300,000 in June, 1814. Noiselessly, a large portion of it disappeared from the country. Says Adams, "Even the most prejudiced and meanest intelligence could now understand why the destruction of the United-States bank threatened to decide the fate of the war, and of the Union itself. The mere property in the bank, important as this was, counted for comparatively little in the calculation; although \$7,000,000 of foreign capital invested in its stock were lost to the country by its dissolution, and had been remitted to Europe shortly before the war."<sup>1</sup> By such action, Congress showed the same lack of wisdom as did the Spanish statesmen when they drove the Moors into the sandy wastes of Africa, taking millions of ducats with them at the very time that money was most wanted, when taxation was high, and a revenue very difficult to obtain.

This loss of specie was very serious, but still worse things happened. State banks rapidly multiplied: their managers, ignoring the plainest lessons of wisdom in issuing bank-notes, were soon compelled to announce the suspension of specie payments, — an event which projected its long inevitable train of injurious consequences into all public and private business. As Egypt was the gift of the Nile, so did the people now fully realize that the sound money which had circulated throughout the country for twenty years was the gift of the United-States

<sup>1</sup> Adams's Life of Gallatin, p. 474.

bank. They then found out how magical had been the power of the gold belonging to the bank during these years, even though hidden in its vaults from public sight. Had the bank been suffered to live, Gallatin believed that the suspension of specie payments would have been prevented, and that the terrible disorganization of the whole system of internal exchanges, which nearly brought the government to a dead stop, would not have happened. Such was the ultimate and disastrous effect of the refusal of Congress to renew the charter of the bank. The "factious incompetence" which Congress displayed "cost the nation infinite loss and trouble," and did, in truth, imperil its very existence.<sup>1</sup>

<sup>1</sup> Adams's *Life of Gallatin*, p. 430. Gallatin affirmed in 1831, "It is our deliberate opinion that the suspension might have been prevented at the time when it took place, had the former Bank of the United States been still in existence. The exaggerated increase of State banks, occasioned by the dissolution of that institution, would not have occurred. That bank would, as before, have restrained within proper bounds, and checked, their issues; and, through the means of its offices, it would have been in possession of the earliest symptoms of the approaching danger. It would have put the treasury department on its guard; both acting in concert would certainly have been able at least to retard the event; and, as the treaty of peace was ratified within less than six months after the suspension took place, that catastrophe would have been altogether avoided." — *Considerations on the Currency and Banking System of the U. S.*, Writings, vol. iii. p. 287.



## CHAPTER VIII.

## COINAGE.

THE Colonies, notwithstanding their political relation to Great Britain previous to the separation in 1776, had never followed very closely the monetary system existing in the mother-country. Long before the Revolution, the Spanish dollar, to a very considerable extent, had usurped the function of the pound sterling as the basis of reckoning. The paper money issued by the Continental Congress was not made payable in pounds, shillings, or pence, but in Spanish dollars, which had found their way here from Havana.

The need of a legal-money standard, and of a mint for coining it, had been realized during the existence of the Confederation; and Morris, Jefferson, and others had considered the subject. Laws had been enacted from this stirring of the question, but hardly any thing was done toward executing them.<sup>1</sup> When the new government was established, Hamilton was directed to report a plan for the creation of a mint; and in 1791 he presented his report to Congress.<sup>2</sup> "The great variety of considerations — nice, intricate, and important — involved in the subject; the general state of debtor and creditor; all the

<sup>1</sup> See Financial History, previous volume, pp. 301-305.

<sup>2</sup> Works, vol. iii. p. 149.

relations and consequences of price; the essential interests of trade and industry; the value of all property; the whole income, both of the State and of individuals,"—these remarks, which appear in the beginning of his report, show how fully Hamilton comprehended the importance of the inquiry.

"The dollar originally contemplated in the money transactions of this country, by successive diminutions of its weight and fineness, had depreciated five per cent; and yet the new dollar had a currency in place of the old with scarcely any attention to the difference between them. Nor would it require," he continued, "any argument, to prove that a nation ought not to suffer the value of the property of its citizens, to fluctuate with the fluctuations of a foreign mint, and to change with the changes in the regulations of a foreign sovereign."

Hamilton then proceeds to inquire what ought to be the nature of the money-unit; the ratio between gold and silver (if coins of both metals were to be established); the proportion and composition of the alloy in each kind; ought the expense of coining to be defrayed by the government, or out of the material itself; the number, denominations, sizes, and devices of the coins; and ought foreign coins to be allowed to pass current or not, and, if allowed, at what rate, and for what period.

Concerning several of these points, Hamilton's views deserve extended consideration. In regard to the first question, the money-unit, he inquired what it actually was. "The pound, though of various value, was the actual unit of the money of account;" but the manner of

adjusting foreign exchanges indicated that "the dollar was best entitled to that character."

Of the different dollars, the dollar in actual circulation, he thought, should be regarded the actual money-unit, rather than the ancient dollar,—a conclusion strengthened by the fact that "it was more conformable to the true existing proportion between the two metals in this country, and to that which obtains in the commercial world generally." An investigation into the existing ratio between gold and silver yielded no precise definition of the present unit, but furnished data from which it could be ascertained. In determining what ought to be the future money-unit, he inquired whether it ought to be attached to one of the metals in preference to the other, or otherwise; and, if to either, to which of them. The resolves of the old Congress showed that the unit was not attached to either coin. Contrary to the ideas which had prevailed, he proposed that no preference should be given to either; though, if there were to be, gold should be the favored metal rather than silver, because it possessed greater stability. The principal reason why such a preference should not be given was, that, in attaching the unit to either of the metals, the office of the other as money would be destroyed: it would become mere merchandise, thereby diminishing the quantity of circulating medium, and impairing the utility of one of the metals.

The other point deserving notice was what ratio should be established between the two metals,—a question of great moment, both from the consequence that an overvaluation of one would tend to banish the other, and because it would produce a diminution of the total quantity

of specie in the country; though the latter conclusion, from local and particular circumstances, he thought, would be received with caution. The effect of an over-valuation, to produce a greater and more frequent disturbance of the state of the money-unit by a greater and more frequent diversity between the legal market proportion of the metals, was not overlooked. In establishing this ratio, Hamilton wisely remarked that the commercial relations of this country with Great Britain, and the future payments of interest to Holland, should be considered. Thus viewing the question, he believed that the commercial proportion existing in those countries ought to be preserved here. All the other points in this report received candid and thorough consideration.

The friends of Jefferson also introduced a bill, which was passed, directing him to report a plan for establishing uniformity in the currency, weights, and measures of the United States. During the second session of Congress his report appeared.

He proposed a new coinage for the United States, of a different value from the dollars then in circulation. He proposed to add "five grains of silver to the proper weight of the dollar, without a proportional augmentation of its legal value." So serious a change in the unit was too great to secure its adoption.

In 1792<sup>1</sup> a mint was established, the officers of which were a director, an assayer, a chief coiner, an engraver, and a treasurer. Gold, silver, and copper were to be coined. The piece of greatest value was an eagle, "to be of the value of ten dollars or units," and to contain  $247\frac{1}{2}$

<sup>1</sup> Act, April 2, 2 Cong., first session, chap. 16.



grains of pure, or 270 grains of standard gold. "Dollars or units" also were to be coined, "of the value of a Spanish milled dollar," then current, and to contain  $371\frac{4}{16}$  grains of pure, or 416 grains of standard silver.<sup>1</sup> The half and quarter dollar, and dimes and half-dimes, were to contain the same proportions of silver. Cents were to be coined of the value of the one-hundredth part of a dollar, and to contain eleven pennyweights of copper. Half-cents were to be each of the value of half a cent.

The ratio between gold and silver, in all coins composed of those metals, was fixed at fifteen to one: in other words, fifteen pounds' weight of pure silver had the same legal value as one pound weight of pure gold.

The standard established for gold coins of the United States was eleven parts fine to one part alloy. Accordingly, eleven parts in twelve of the entire weight of each coin was to consist of pure gold, and the other part of alloy. The alloy was to be composed of silver and copper, the proportion of the former metal not exceeding one-half. The proportion was to be regulated by the director of the mint, with the approbation of the President.

The standard established for silver coins was 1,485 parts fine, to 179 parts alloy. Accordingly, 1,485 parts in 1,664 parts of the entire weight of each silver coin was to

<sup>1</sup> Dr. Linderman says that Hamilton, "in determining the quantity of pure silver for the dollar, did not take the lawful standard of the Spanish dollar of any particular issue, nor the average of the different issues, as his guide, but the actual average content of fine silver in the Spanish dollars then in circulation; which coin had for many years previously been, as it was then, the standard by which other moneys were generally measured, and in which contracts and money obligations in this country were discharged." — *Money and Legal Tender*, p. 25.

consist of pure silver, and the other 179 parts were to be of alloy composed wholly of copper.

Individuals could bring gold and silver bullion, and have the same coined free of expense. The coins were made a legal tender. Penalties were prescribed for debasing them, and the money of account was to be expressed in dollars.

The majority in favor of establishing the mint was very close, consisting only of four votes.

Though adopting Hamilton's plan, the control of the mint was given to the State department, and remained there until Hamilton's retirement from the treasury office. One of his last official acts was to recommend placing it under the control of the treasury department, where it belonged. His suggestion was adopted. Its singular misplacement in the beginning was doubtless due to the wishes and influence of Jefferson.

The business of coining had not been conducted long, before difficulties were encountered. One of these related to getting copper fit for coinage purposes. Another and still more serious difficulty related to the mint standard of the silver coin, which differed from the legal standard. By the law establishing the mint, it was provided that the silver coinage should contain 1,485 parts of fine silver to 179 parts of alloy, or ten ounces fourteen pennyweights and five grains of fine silver to one ounce five pennyweights and nineteen grains of alloy. Before commencing operations, it was supposed that the standard thus adopted was too low, and would debase the coin too much, causing it to wear black. The director of the mint, Henry William de Saussure, "presumed that an

alteration would be made, which was recommended by its propriety and correctness.”

The alteration proposed was, that nine parts in ten should be fine silver, the other tenth alloy, or ten ounces sixteen pennyweights fine, to one ounce four pennyweights alloy, in the pound Troy. Supposing that such an alteration would be made, the coinage was begun in October, 1794. The following winter the matter was submitted to a committee of Congress, who reported concerning the propriety of making the alteration. The report was favorably considered in one house, but was not taken up in the other. In the mean time, the mint continued to use the standard at first adopted as though Congress had made the alteration. Thus for a time the mint dollar contained greater value than the legal dollar, and was coined contrary to law, though in expectation of what the law would finally be.<sup>1</sup> Instead of changing the law, the fineness of the dollar was changed in October, 1795, in conformity with the law already existing. In the mean time, silver coin had been coined of greater fineness than prescribed by law, which was an obvious loss to depositors. They received all the silver deposited, but fewer coins than they would have received had the law been observed. A depositor, discovering his loss, asked the government to pay him the difference, as it was caused wholly through the fault of its officers. A committee of Congress reported favorably on the claim; but Congress declined to act, fearing that all depositors would make similar claims, and thus subject the government to a new burden which it could not easily bear. Thus the

<sup>1</sup> Pickering's Report, Dec. 14, 1795, 1 Finance, p. 356.

early history of the operations of the mint was peculiarly unfortunate. Had the legal standard been followed, the difficulty would have been averted; but the departure therefrom was made on the weightiest grounds; and what Congress should have done was to adopt the standard proposed by the director of the mint.<sup>1</sup>

Other difficulties arose. Notwithstanding the efforts of those directing the mint to manage it with economy and efficiency, it proved to be a very expensive institution. Not a few complained of the heavy outlay, which was neither foreseen nor expected. These complaints did not contain any charge of personal incapacity against the director himself. The heavy expenses incurred were the result, chiefly, of the principles on which the mint was established. Not only did the original cost of the works, and the salaries of the officers, fall on the public, but also the whole expense of workmanship, with the alloy, mintage, and contingent losses. The want of an experimental knowledge of the business prevented the formation of an accurate estimate of the expense incurred in it: while the undertaking had not gone far, before it was found that a melter and refiner were required. Besides, in the beginning, no charge could be made for the process of melting and refining to depositors: the whole expense, therefore, was borne by the government. Hence, in assaying one deposit of ninety-six thousand ounces of silver bullion, which proved to be twenty-four thousand ounces under standard, the refining of it cost the United States more than five hundred dollars; so that the depositor really gained that sum by bringing his bullion to the mint. This

<sup>1</sup> Foster's Report, May 19, 1798, 1 Finance, p. 588.



operated very unequally among depositors. The citizen who brought bullion in such a debased state to the mint received as much coin for the standard silver therein as the one whose bullion had been previously refined equal to the standard, and therefore ready for coining,—an operation conducted with little expense. Moreover, the lack of capital, either to purchase the precious metals in bullion, anticipate payments due to depositors, or coin for the public, was another cause of very considerable expenditure. Depending wholly on depositors for the precious metals, it became necessary, for their encouragement and satisfaction, to coin every deposit as soon as possible after it came to the treasury of the mint, to prevent it from remaining unproductive to the depositor. It was necessary for the clippings and grains to be melted and coined often three or four times for a single deposit. Thus the melting, refining, and coining of a deposit of two hundred ounces of silver, or twenty ounces of gold, would cost the public nearly as much as a thousand ounces of either, and a much greater proportional wastage. Had the bullion been purchased for the public at the market-price, and kept in the vaults until the collection of a large quantity for a single coinage, or had a capital of perhaps ten thousand dollars been furnished to the mint, to anticipate payments to depositors, without resorting to an immediate coinage on every occasion, a very great saving would have been effected, not only with respect to wastage, but also in the expenditure of the materials and labor used in the process; while no loss would have occurred to the United States, save the loan of the money for a short time. The gains to the government would have been ten-

fold greater than the loss. Besides, such a practice would have had a tendency to fix the price of bullion, and indemnify the public for a part of the expense of coinage.<sup>1</sup>

Such was the policy which it was highly expedient for the government to pursue. In 1797 a sum was appropriated for the purchase of bullion; thus effecting the economies described, and rendering the operations of the mint more satisfactory to those desirous of having bullion coined into money.<sup>2</sup>

In 1795<sup>3</sup> there was other legislation respecting coinage. The treasurer of the mint was directed to retain two cents per ounce from every deposit of silver bullion below the standard for refining, and four cents per ounce from every deposit of gold bullion, unless it were so far below the standard as to require the operation of a test; in which case the treasurer was to retain six cents an ounce. Nor was he obliged to receive from any one a smaller deposit of silver bullion below the standard than two hundred ounces, nor of gold less than one-tenth that quantity. The officers of the mint were allowed to give a preference to gold and silver bullion deposited for coinage, conforming to the standard adopted by the government.<sup>4</sup> The next year the law was changed, and

<sup>1</sup> Pickering's Report, Dec. 20, 1796, 1 Finance, p. 473.

<sup>2</sup> Haven's Report, Feb. 13, 1797, 1 Finance, p. 494.

<sup>3</sup> March 3, 3 Cong., second session, chap. 47.

<sup>4</sup> Boudinot says, in his annual report of the mint (Jan. 1803), that the certificates for deposits were sold generally, as soon as given, to the banks in Philadelphia, at a fourth and a half per cent discount for the delay of coinage. "The banks," he adds, "are fond of keeping the coin in their vaults as part of their capitals, on account of the ease with which they are counted, without the trouble of weighing. The Bank of the United States, indeed, having a considerable part of their specie in this coin, have been

thereafter enough was retained from every deposit of gold or silver bullion below the standard to pay for refining it.<sup>1</sup>

At the close of the century there had been coined and issued from the mint \$696,530 in gold, \$1,216,158.75 in silver, and in copper \$50,111.42; or a total of less than \$2,000,000. The expense of maintaining the establishment had been \$213,336, though the treasury had been reimbursed by the payment of cents and half-cents to the amount of \$48,041.42. The expense seemed so disproportionate to the benefits derived from the mint, that a committee of Congress recommended the closing of it, while many others shared in this opinion.

In their report the committee declared that to furnish coin sufficient for a circulating medium throughout the United States would be impracticable, unless the capacity of the mint were greatly increased, and the custom of melting down the coin, and exporting it to foreign countries, were prevented. This could be done in no way except by debasing the coin, — an expedient which could not be recommended. Even that might prove unavailing. Temporary causes, it was maintained, had hitherto furnished a great proportion of the bullion which had been coined; and the only way to furnish a regular and certain supply was to prohibit the circulation of foreign coins, thus converting them into bullion, which was the

enabled, for some time past, to cancel their five-dollar notes, and to substitute the payment of half-eagles, by which our coins begin to be more generally dispersed among the people.”

<sup>1</sup> Act, May 27, 1796, 4 Cong., first session, chap. 33; April 24, 1800, 6 Cong., first session, chap. 34, sect. 2.

idea of those who were in favor of establishing the mint. Beside the inconvenience attending the measure, the committee believed it would not be effectual unless the transportation of bullion to the mint, and the replacement of its value in coin, were done at the risk and expense of the United States; for the difference in value between bullion and coin was so small, that no individual would be inclined to incur the risk and expense. Even cents and half-cents, it was believed, the mint could no longer furnish in sufficient quantity on the plan then existing. Such was the history, condition, and prospects of the mint at the close of a seven-years' experiment.<sup>1</sup>

The expediency of closing the mint continued to grow in the public mind. Public opinion became divided on the question of importing cents coined abroad by contract, and of having them made here in a similar manner. Boudinot, the director of the mint, feared that "an importation of cents complete would hazard the running of a flood of cents, lighter than allowed by law, into the United States, and the difficulty of preventing the evil would be very great." He declared it would be a greater security to government to have the coinage of copper executed here by contract, which might be done without expense to the Union, provided the government would take the cents.<sup>2</sup>

Individuals soon appeared who were ready to contract for coining them. Robert Scot made an offer to Gallatin for "the exclusive privilege of coining cents of the United

<sup>1</sup> Hillhouse's Report, March 14, 1800, 1 Finance, p. 632.

<sup>2</sup> Gallatin's Communication relating to Mint, April 2, 1802, 1 Finance, p. 744.



States, as well from abroad as from within the realm," under such instructions as Congress might prescribe. He proposed to coin "free of all expense to the government, excepting that of receiving them when coined, and paying the nominal amount." A proposition somewhat similar had been received by Jefferson ten years before, from a person residing abroad, to coin them in Europe, and then transport them to this country.<sup>1</sup>

The law establishing the mint provided that it should be at the seat of government: consequently, when that was removed to Washington, the removal of the mint became necessary. The removal was delayed by law until 1801. For many years the question was unsettled; but finally, in 1828, Congress resolved that the mint should remain at Philadelphia.

As the institution grew older its efficiency increased. The workmen acquired greater skill: they acquitted themselves with strict integrity; and for many years not a dollar was lost, except in a single instance. The culprit was detected by the officers of the mint, and he was prosecuted and punished. In 1805 about eleven thousand dollars of the gold coined came from the county of Cabarras, North Carolina,—an event which at that day excited considerable interest. There was no difficulty in getting a sufficient quantity of the precious metals for coinage. They were furnished chiefly by the banks, especially by the Bank of the United States.

The expense of the mint from its establishment to the close of 1809 was \$387,414,024. There had been a profit, however, on the copper coinage, of \$37,331.52, thus redu-

<sup>1</sup> Jefferson's Report on Copper Coinage, April 15, 1790, 1 Finance, p. 44.

cing the net expense of running the mint to \$350,082.77. The total value of the coinage to that period was \$8,346,146.21.<sup>1</sup>

Before the mint began operations, all the coins in circulation were foreign. Several years must elapse before the mint could fill the channels of circulation with enough American coin to discard, without inconvenience and loss, the use of foreign coin. Hence Congress enacted,<sup>2</sup> that after the first day of July, 1793, foreign gold and silver coins should pass current, and be a legal tender for the payment of all debts at certain specified rates. They could, however, be a legal tender for three years only from the time the mint began operations, except Spanish milled dollars and parts thereof. As these were of the same value as the dollar forming the monetary unit, there seemed to be no objection to continuing the use of them for the legal discharge of debts. When the three-years' limitation began to run, the event was announced by a proclamation of the President; and all foreign coins received by the government were coined anew.

On the twenty-second day of July, 1797, the President issued another proclamation, announcing, that, on the fifteenth day of October following, foreign silver coins, with the single exception previously noted, would cease to be a legal tender. The president and directors of the Bank of the United States having indicated their consent to receive French crowns and other foreign silver coins as a legal tender at the current rates, the treasury department permitted foreign coins to be received in payment

<sup>1</sup> Gallatin's Report on Mint, Jan. 11, 1811, 2 Finance, p. 464.

<sup>2</sup> Act, Feb. 9, 1793, 2 Cong., second session, chap. 5.

of the public revenues in the same way that they had previously been. To obviate inconveniences which might attend the negotiation of treasury drafts, the supervisors and collectors were requested to specify, in their weekly returns to the treasury department, the amount of foreign silver coins in their possession that were not a legal tender for the discharge of debts. They were also requested to inform the department whether these coins were current by common consent, in order to have such measures adopted for the collection of the revenue as might be necessary.<sup>1</sup>

When the three-years' limitation had expired, not much silver coin of the United States was found in circulation far from the mint, and still less in the interior parts of the country. Embarrassments occurred, and losses were sustained; for a very considerable quantity of foreign silver coins, besides Spanish milled dollars, were then in circulation. The time for the circulation of foreign gold coins did not expire until the end of July the following year.<sup>2</sup>

The limitation was extended from the 1st of January, 1798, to the 3d of May, 1802.<sup>3</sup> But legislation on this subject was singularly defective. The legal effect of this last Act was, that for three years after 1802 no foreign coins whatever were a legal tender, and from the 3d of May, 1805, Spanish milled dollars and parts thereof only could be thus employed.<sup>4</sup>

The exportation of Spanish milled dollars was so large,

<sup>1</sup> Venable's Report on Foreign Coins, Dec. 11, 1797, 1 Finance, p. 503.

<sup>2</sup> Ibid.      <sup>3</sup> Act, Feb. 1, 1798, 5 Cong., second session, chap. 11.

<sup>4</sup> Anderson's Report, March 26, 1806, 2 Finance, p. 197.

and so many of the foreign coins remaining, as well as those issued by the United States,<sup>1</sup> were kept by the banks, that Congress determined once more to sanction the use of foreign coins. Another statute was passed, fixing the rates at which foreign gold and silver coins should "pass current as money within the United States."<sup>2</sup> In order to know the real standard value of foreign coins, they were to be assayed yearly; and, from the information thus obtained, Congress could intelligently act in altering the rates, whenever necessary. This law was to continue in force for the customary period of three years, or until April 10, 1809.

The year after the law expired an attempt was made to extend the limitation. Josiah Quincy remarked, in a report to Congress, that the denial to foreign coins of circulation, and of employment as a legal tender, had the combined effect of circumscribing the just sphere of mercantile action, and of encouraging the exportation of that species to which these privileges were denied. In the present circumstances of the United States, it seemed peculiarly unadvisable to permit any statute of prohibitions to continue which had a tendency to produce such an effect. The statute currency of the United States,

<sup>1</sup> Boudinot's Mint Report, January, 1805. Patterson remarked in the mint report at the close of 1807, "All foreign gold coins have now nearly ceased to circulate as a currency in the United States. Deposits of these are still, indeed, frequently made in our banks, but are thence either sent to the mint for coinage, or re-issued for the purpose of exportation" (see his Letter to Gallatin, June 29, 1809, to the same effect, 2 Finance, p. 385). One reason why the Spanish coins continued to circulate was their light weight (see Patterson's Letter to Gallatin, Dec. 19, 1810, 2 Finance, p. 455).

<sup>2</sup> Act, April 10, 1806, 9 Cong., first session, chap. 22.



which then consisted only of the coinage of the mint, and of Spanish milled dollars and parts of the same, was probably insufficient for the ordinary necessities of domestic exchange, and was certainly wholly inadequate to support any peculiar embarrassment of the circulating medium, which, in the event of the dissolution of the Bank of the United States, could not but be anticipated.

In employing foreign coins once more, an interesting question was raised in regard to the use of Spanish gold coins. When used previously, they were estimated at four per cent above their intrinsic value: in other words, "the quantity of pure gold contained in twenty-seven grains and two-fifths of a grain of Spanish standard coin, instead of being equal in value to one hundred cents, the statute rate was only equal in value to about ninety-six cents." Should the old statute rate be established, or a new one, based upon its intrinsic value? And, further, if a new rate should be established conformable to its intrinsic value, should the loss of four per cent falling on the present holders without any fault of theirs, but solely by reason of the erroneous estimate made by the government, be assumed by it, or be borne by them?

Quincy favored the establishing of a new rate of valuation; and so did Gallatin, who declared, that, if the former Act were revived without any alteration, every person receiving those coins in payment would, in fact, be compelled to receive only ninety-six instead of one hundred cents on every dollar paid to him. The unavoidable effect of putting in circulation any one species of coin, at a rate higher than its known intrinsic value, was to invite its importation and increased circulation, and to drive out

the other species. Every bank, if required to pay its notes in specie, would, in that case, pay with that species of coin; and the whole paper circulating medium must, after a time, depreciate in the same proportion. The only guard against the abuse and consequent depreciation of bank-paper was a strict adherence to the principle that payment might at any time be demanded in specie rated at its intrinsic value.

The second question was "of a more doubtful nature." Gallatin affirmed, that if it should be thought just for the community to bear the loss, instead of individuals, it would certainly be preferable to pay at once the difference rather than knowingly to make the coins a legal tender at a higher rate than they were worth. If the government should determine to bear the loss, the most simple manner of effecting the object would be "to direct the mint to receive that species of gold for a short time at the former statute rate, the United States paying the difference." Quincy's opinion, however, was, that whatever equitable considerations might exist for the government to pay the difference, the attempt to apply relief would prove inexpedient and impracticable; for it was very apparent that there was no foundation for indemnifying those who had received these coins subsequent to the 10th of April, 1809, when the law making them a legal tender expired. The cases in which present holders had received them prior to that time were doubtless so very rare as to render any provision for their relief unnecessary. In respect of the banks, the specie circulated through them in such a manner that it would be hardly possible to distinguish the coins they had received

since the 10th of April, 1809, from those received before. Quincy said, that, in a few instances, the coins might be distinguished; "yet it seemed far better that in these the loss should remain where it had fallen than that the community should be exposed to the multiplied frauds and inconveniences which the attempt to indemnify upon any general principle would inevitably introduce." He might have added, too, that the inferior value of these coins to their legal valuation had been known for several years; so that most persons, and especially the banks, were not deceived, either by the government or by any one else, when they received them.<sup>1</sup>

This question of determining who should bear the loss on the Spanish gold coins recalls forcibly the experiment of the British Government in 1695, under the gifted direction of Charles Montague, and the action of the Turkish Government under Mahomet IV., nearly thirty years earlier, accepting at their purported value the debased themins made by French merchants, and exchanged in vast quantities for Turkish goods among the unsuspecting Turks at Constantinople. But Congress did nothing; so that, for several years, foreign coins formed no part of the legal monetary circulation of the country. When the matter was next touched, the country was blazing in war with Great Britain.

<sup>1</sup> Quincy's Report on Currency of Foreign Coins, Dec. 27, 1810, 2 Finance, p. 456.

## CHAPTER IX.

## HAMILTON'S ADMINISTRATION.

HAMILTON resigned the last day of January, 1795. Of all the departments of the government, the most important in the beginning was the treasury. The very existence of national life depended on the successful solution of financial questions. How these were solved by Hamilton we have already seen. He opened the way for funding the national debt. He devised taxes, and regulated their mode of collection. He founded a national bank, the great importance of which was never fully realized until it ceased to exist. He established a mint, which, although blundering at first, soon proved the need of its existence. He created an admirable system of accounts. All these were parts of a great plan, boldly designed, and which admirably fulfilled what its author intended. He was the cyclopean builder, and his successors did but little more than to fill in the interstices as they were discovered. Though parts no longer exist, because they are not needed, yet enough of the system still remains, like the mossy monuments of a great city, to bear witness to its former grandeur.

In estimating his achievements, it must be remembered how strongly opposed he was in many of his measures. In some cases he failed entirely: in others, his measures



came forth from Congress so marred that he could hardly recognize them as his own creation. Thus the bill finally adopted for funding the indebtedness of the government was a crude and patched measure,—a compromise between many opposing minds. But by no simpler device could an agreement be reached.

Another cause of opposition to Hamilton's measures was their centralizing tendency. It was clearly seen how the funding of the debts of individuals, and assuming those of the States, the establishment of a national bank, and all the corollary measures relating to the laying and collection of a revenue, strengthened the government enormously; and a formidable party arose in opposition to every measure having such a tendency. This opposition was cemented and led by Jefferson. Doubtless many opposed Hamilton, not because they believed he was wrong, but to destroy his influence. Nearly all the investigations into his official conduct had their rise in this feeling.<sup>1</sup> A weaker man than Hamilton in the treasury department would have failed to convince Congress of the absolute necessity of enacting the measures which were necessary to rescue the government from speedy destruction.

Hamilton won a higher distinction in the treasury department than any successor is ever likely to attain. This was due, partly to his rare ability, and partly to the time in which he lived. There was a happy combination of man and circumstance, and the result was truly wonderful. Had he been in the treasury department during Crawford's time, doubtless he would not have signally

<sup>1</sup> Gibbs's Adm., vol. i. p. 81.

distinguished himself, because there was no *opportunity* for exhibiting any remarkable financial genius.

Another cause contributed to Hamilton's success. He was the man in whom most of the financial knowledge of his own party was concentrated. The other members readily acknowledged him as their financial Moses, who was competent to lead the people out of darkness into the smiling day. No one disputed the leadership with him in his chosen field. On the other side there was no financial talent whatever until 1794, when Gallatin entered the House. During his short service in the Senate he did little beside call for a statement of the domestic debt. When he appeared in the other branch of Congress, he found that "the financial department," to use his own words, "was quite vacant" with respect to representation by his own party. This is why, having made himself complete master of the subject, he occupied that field almost exclusively, and was chosen financial leader by the Republican party when they came into power.<sup>1</sup>

<sup>1</sup> Gallatin left a fragmentary memorandum of his congressional service, in which he says, after entering the House, "My first step was to have a standing committee of ways and means appointed. That this should not have been sooner done, proves the existing bias in favor of increasing as far as possible the power of the executive branch. The next thing was to demonstrate that the expenditure had, till then, exceeded the income. The remedy proposed was economy. Economy means order and skill; and, after having determined the proper and necessary objects of expense, the Legislature cannot enforce true economy otherwise than by making specific appropriations. Even these must be made with due knowledge of the subject; since, if carried too far, by too many subdivisions, they become injurious, if not impracticable. This subject has ever been a home of contention between the legislative and executive branches in every representative government, and it is in reality the only proper and efficient legislative check on executive prodigality." — ADAMS'S *Life of Gallatin*, p. 157.

It is true, when Hamilton resigned, there had been no reduction of the national debt. But this was no fault of his, nor of any one. It was a gigantic task to organize the treasury department, and provide funds for paying the interest, in addition to the annual expenses of the government. The people were not accustomed to paying taxes, especially when laid and collected by a general government. The payment of them did not come easily. Moreover, the government was so unfortunate as to become involved in some heavy, unexpected expenditures, which no statesmanship could have prevented. These occurred at a time, too, when the government could ill afford to divert its funds from any other than its ordinary purposes. Keeping these facts before us, did not Hamilton accomplish as much in the way of discharging the public obligations as any person could have done?

No annual report was required of the secretary of the treasury until the opening of the new century. Had the law then passed been enacted earlier, Hamilton might have been spared much of the trouble to which he was subjected of making frequent reports. Yet it is true that some of these were demanded more to annoy him than to obtain information. He certainly thought so, and he had reasons for entertaining such an opinion. How these inquiries interfered with his other duties, and how he was vexed by them, may be learned from his own writings. "The occupations necessarily and permanently incident to the office are at least sufficient fully to occupy the time and faculties of one man. The burden is seriously increased by the numerous private cares,—remnants of the late war, which, every session, are objects of particular

reference by the two Houses of Congress. These accumulated occupations, again, have been interrupted in their due course by unexpected, desultory, and distressing calls for lengthy and complicated statements, — sometimes with a view to general information; sometimes for the explanation of points which certain leading facts, witnessed by the provisions of the laws and by information previously communicated, might have explained without those statements, or which were of a nature that did not seem to have demanded a laborious, critical, and suspicious investigation, unless the officer was understood to have forfeited his title to a reasonable and common degree of confidence.”<sup>1</sup>

It has been said that Hamilton borrowed many of his ideas from the English system of finance. Funding had long been known in the history of governments. But though the principle of funding was an old one, the practical application of it by Hamilton was involved in enormous difficulties. The idea was a new one here; and, while the general opposition to the adoption of the principle was strong, the opposition to the practical application of it at every step was immensely heightened.

So, too, the pledging of the revenues for loans was a new principle. To make credit immortal, he declared that every debt must be accompanied with the means of extinguishment. This principle he sought to apply in every instance. The only exception was that of the Algerine loan for one million dollars. When that was authorized, no revenues were pledged for its payment; and the failure of Congress to do so was the chief cause,

<sup>1</sup> Letter to Senate, Feb. 22, 1794, Adams's *Life of Gallatin*, p. 116, *note*.



Hamilton believed, why the money needed could not be obtained.

Hamilton exerted a tremendous influence in his party, notwithstanding the efforts of jealous aspirants to pull him down. Of these, Jefferson and Madison were for a considerable period the most active. But there was a great difference between the modes of warfare adopted by them. Madison resorted to no secret or unfair means to undermine Hamilton; while Jefferson never scrupled on the grounds of conscience or of honor to overthrow any one whom he thought stood in the way of his advancement, or that endangered the security of his position.<sup>1</sup>

Wolcott was appointed secretary of the treasury two days after Hamilton's resignation. He was a thorough believer in the financial views of Hamilton, and was permitted to remain long enough to develop the system already begun. Wolcott was not brilliant; but he was honest to the core, familiar with all the details of the treasury department, and his fitness for the place was not questioned by any one. Having always attended closely to his official duties, he had never found leisure to enter the arena of active politics: perhaps such an inclination had never been aroused. He brought no political strength, therefore, into the cabinet. On the other hand, he was saved from many attacks like those which Hamilton had been obliged to face,—a gain to himself, his party, and his country. Had he been more prominent as a politician, doubtless he would have been oftener assailed. As he was seen to be purely a business official, a general disposi-

<sup>1</sup> Hamilton's Hist. of Repub., vol. v. pp. 129-135.

tion was shown to suffer him to manage the affairs of his office in peace.

The administration of the treasury department by Wolcott was tame compared with that of his gifted predecessor. When Hamilton began, chaos existed throughout the entire region of public finance. Every thing was to be done, and the work required the very highest order of ability. But Hamilton was equal to the task. He truly marked a new renaissance in finance. Such a condition of things is never likely to return. It was the one occasion on which, if the man appeared equal to it, he was sure to win a fame as permanent as the existence of the nation for which the work should be done. Probably it was the desire to see his system as nearly completed as possible which led him to remain in office for a considerable period after the place had become uncongenial to him. It is true that he had the confidence of Washington to the end, and on every side there were strong friends; but he had numerous enemies, who were both watchful and harmful, and they never failed to throw a dart at him whenever they saw him exposed. On the last day of January, 1795, he retired from office, having accomplished a prodigious work, on which later generations look with admiring wonder.<sup>1</sup>

<sup>1</sup> He had just passed his thirty-eighth year.—*Hist. of Repub.*, vol. vi. p. 191.

## CHAPTER X.

## APPROPRIATION BILLS, HOW FORMED AND CONSTRUED.

To enable Congress to form an intelligent judgment of the amount of revenue annually needed, the secretary of the treasury has always been required to furnish estimates of the probable expenditures of the government. These are furnished at an early day of the session, and form the basis of appropriations.

At first the estimates were very general, and often without explanations and suggestions,—a mere naked estimate of the amount needed for the army, navy, and other departments. After a few years the appropriations grew more specific. When Gallatin became a member of the House, in 1794, he labored earnestly to make them still more minute, and not without success. Wolcott, who succeeded Hamilton in the treasury department, did not like the requirement: he thought it was established, not in the interest of good government, but in opposition to it. He wrote to Hamilton, “The management of the treasury business becomes more and more difficult. The Legislature will not pass laws in gross: their appropriations are minute. Gallatin, to whom they yield, is evidently intending to break down this department by charging it with impracticable details.” Yet Gallatin was trying to do no such thing. It is impossible to be

too minute and careful in making public appropriations. The more closely these measures are scanned, the less danger there is of voting money for foolish or dishonest purposes. Wolcott was an honest servant, but he did not see the danger of continuing the plan of appropriating money first adopted. Appropriation bills, however specific, always have unguarded places through which the public funds slip, and are wasted.

Until the advent of Gallatin in the treasury department, Congress specified the revenues from which appropriations should be paid. In some cases several funds were designated for that purpose. But Gallatin changed the custom; and, from the beginning of his administration, there was only a general reference to the source whence appropriations should be drawn.

In 1792 the general appropriation bill was far more elaborate than any former one. The next year a new feature was added: the President was authorized to borrow money in anticipation of the revenue. Appropriations were made for special purposes at every session of Congress; and generally, near the close, a bill was passed containing all the appropriations not included in previous enactments. For many years the custom was observed of passing the general bill early in the session,—a custom, which, if renewed, would be attended with good results. The bill would be put more prominently before the public eye: it would be examined with greater care, and there would be less danger of voting money for corrupt schemes.

Two years later, appropriations for military and Indian purposes were put in a separate bill, and were kept there



for many years. It is true, that in the general bill, as well as in the special one, and also in the miscellaneous bill, might be found appropriations for the army and for the Indians: nevertheless, the custom had been begun of framing what may be regarded as the second regular appropriation bill. For the next three years the appropriations for the army, navy, and Indians, were included in a single annual bill, but in 1798 the navy department was created, and for that year the appropriations for the navy were mingled with others of a miscellaneous nature. The next year, 1799, the third regular annual appropriation bill was passed, making appropriations for the navy department. These were the only regular appropriation bills until 1828, when a fourth bill, appropriating money for the construction of fortifications, was passed, and annually thereafter. The first appropriation bill for deficiencies was passed in 1804.

Beside the special and general appropriation bills, a very large amount of money was expended annually by virtue of permanent appropriations for salaries, interest, and the like. For several years there was a standing appropriation of forty thousand dollars for defraying the expenses of foreign intercourse: then the law was repealed, and the appropriation for this purpose was included in the general bill.

Having described the mode of making appropriations, let us now trace the application of the money appropriated. It was drawn from the treasury by virtue of warrants signed by the secretary, and countersigned by the comptroller, and was paid to the officers or agents to whom the same was due, or who were intrusted with its appli-

cation; or, if belonging to the war or navy departments, it was placed in the hands of the treasurer as agent for those departments, who disbursed it on warrants drawn by the secretary of war or of the navy, and countersigned by the war or navy accountant.<sup>1</sup>

In some instances, however, money was paid from the treasury on a simple letter addressed by the secretary of the treasury to the treasurer. Such payments were afterward covered by warrants. Sometimes money was informally paid by the treasurer, or advanced by the Bank of the United States, before an appropriation had been made by law to cover the expense for which the money was advanced. In every case like this the payment was authorized by a subsequent appropriation.

It may also be noted, that occasionally money was advanced by the collectors of the revenue from funds in their possession before they had been drawn into the treasury. The two principal objects of expenditure to which this exception to the general rule applied, were a portion of the expenses incident to the courts of the United States, which were advanced by the collectors of the customs to the marshals, and those incident to the ordinary support and repair of lighthouses, buoys, and piers, which were generally defrayed in the same manner. In those cases, warrants were issued as though the money expended had been previously drawn into the treasury, and had been afterward paid to the revenue officers to enable them to defray the expense.

Although the construction given by the treasury de-

<sup>1</sup> Nicholson's Report on the Application of Public Money, April 29, 1802, 1 Finance, p. 752.

partment to appropriation laws was not always uniform, yet, for several years during the earlier history of the government, all money appropriated for the annual support of the army and navy respectively was regarded as one general appropriation for each of those two objects, and was indiscriminately applied to every distinct object of expenditure embraced under those two general heads.

The appropriations for the Indian department and for fortifications were generally blended with those of the war department. But there were certain appropriations relating to the army and navy which were regarded as wholly separated from the rest. These related to the purchase of cannon, arms, ammunition, and military stores, to the leasing of foundries and armories, to the fortifications of certain harbors, to the purchase of land with growing timber, to the erection of two docks, and to the purchase and building of several vessels. Likewise, the appropriations for the public debt, the civil department, the mint, lighthouses, census, etc., and for foreign expenses, were considered applicable only to the object for which they were appropriated.

The impolicy of continuing appropriations in force for an indefinite period induced Congress to enact that any appropriations, except certain permanent ones, remaining unexpended for more than two years after the expiration of the year in which they were granted, should cease, and the amount unexpended be carried to an account on the books of the treasury called the "surplus fund." By the operation of this law, no ordinary appropriation survived the specified period of two years; and, notwithstanding the formal designation of the particular account

in which the entry was made, the money was disengaged, and became an undistinguishable part of the public treasure, and subject to the future disposition of Congress.<sup>1</sup>

Hamilton remarked, in one of his reports, that "occasions occur from time to time, which fall under no stated head of expenditure, for which provision, in some mode or other, is necessary." He instanced the apprehension and punishment of several counterfeiters of the government securities. He inquired whether the appropriation of a moderate sum, to be spent by the order of the President, would not be judicious. Such a thing has been done, but Congress can never exercise too much caution in appropriating money in this manner. Good governing requires the utmost particularity and publicity in granting appropriations, and in expending them.

When the government had been in operation a little longer than ten years, there was an investigation concerning the application of the public money. In several cases it was discovered that it had been paid without legal authority: in others, it had been misapplied. There were two requisites to justify the legal expenditure of public money, — first, an authorization of the expenditure; second, an appropriation to cover the expense. These rules had not been observed in all cases, especially in the war and navy departments. Indeed, it was believed that "considerable sums of public money had been greatly misapplied, and that much expense had been incurred without any legal authority." Wolcott published an elaborate defence of the action of the treasury department, in which he explained all the transactions contained

<sup>1</sup> Dallas's Annual Report, December, 1815.



in the report of the committee of investigation. He justified some of the expenditures by appealing to "established usage," which was "equivalent to a written law."<sup>1</sup>

A single illustration may be given to show how loosely the public funds were disbursed in those days. A law had been passed in 1793 authorizing the secretary of state to make simply a certificate of the amount of money expended in certain ways known as "secret services," which were to be taken as vouchers for the expenditure of the sums represented. Without legal authority this mode of certifying to expenditures was extended to the war and navy departments. Subsequently the custom was condemned by a committee of Congress, who entertained "no doubt as to its legality."

The same committee remarked that appropriations for the contingencies of the war and navy departments were at all times liable to abuses, not only from the very large sums usually appropriated therefor, but also from the impracticability of specifying by law the precise objects to which such sums were applicable. The remedy they suggested was the publication of all accounts of this kind. Nor could any possible inconvenience be discovered in making such a disclosure, since there was no necessity nor propriety for applying the principle of secret-service money to either department.

Although no reformatory legislation was generated by

<sup>1</sup> Address to the People of the United States, p. 6. Wolcott justly complained of the way in which the committee performed their work; for the majority conducted the investigation, and said nothing to the minority until their report was ready to be presented to the House (*Ibid.*, p. 1). Such a method of investigation reflects no credit on those who took part in it, whatever may be the facts and conclusions contained in their report.

this investigation, the several departments improved their modes of doing business. Thereafter every warrant drawn for money specified the particular appropriation to which it would be charged. Some exceptions were made in the navy department respecting contingent expenses incurred at distant places.<sup>1</sup> Many defects, though, which experience had clearly brought to light, still remained without a remedy.

In 1808 the secretaries of the treasury and navy and of war, and the postmaster-general, were required to lay before Congress an annual statement of all the contracts made in their respective departments, and all the particulars relating thereto; and by the same Act members of Congress were prohibited from becoming interested in any contract to which the government was a party.<sup>2</sup> The next year Gallatin laid a communication before the House, pointing out what reforms were needed in making advances, and accounting for public money in the war and navy departments. Congress then, for the first time, bestowed that attention to the subject which its importance demanded.

It was enacted that every warrant drawn by the secretary of the treasury, or of war, or of the navy, on the treasurer, should specify the particular appropriation to which it should be charged. The officers, agents, or other persons who received public money, were required to render accounts of its application; and the secretary of war and of the navy were required to report to Congress annually an account of the expenditure and application of all

<sup>1</sup> Secretary of the Navy's Letter, in Giles's Report, Feb. 25, 1809, 2 Finance, p. 348.

<sup>2</sup> Act, April 21, 1806, 10 Cong., first session, chap. 48.

money drawn from the treasury prior to the end of September preceding. Moreover, the law provided that the appropriations for each branch of expenditure in the several departments should be solely applied to the objects for which they were respectively appropriated, and to no other. The law contained the following noteworthy provision: During the recess of Congress the President was authorized, on the application of the secretary of the proper department, to direct, if in his opinion the necessity of the public service required such an expenditure, that a portion of the money appropriated for a particular branch of expenditure in that department be applied to another branch in the same department, in which case a special account of the money thus transferred, and of its application, was to be laid before Congress early the next session.

Congress provided, also, for the settlement of accounts; and all that remained unsettled for a period of three years were to be reported annually during the first week in every session. The mode of appointing persons to make contracts was regulated; and they were directed to make their purchases, either openly, or by previously advertising for proposals. They were required to render an annual statement of their doings, and several other provisions were added for the more efficient discharge of the public business in making purchases, and accounting for the public money.<sup>1</sup> Thus, in the twenty years that had elapsed since the formation of the government, there was a great advance in this direction. But the government moved very slowly to suffer so long a period to pass before introducing the reforms the need of which had long been clearly seen.

<sup>1</sup> Act, March 3, 1809, 10 Cong., second session, chap. 23.

## CHAPTER XI.

## APPROPRIATIONS AND EXPENDITURES.

1789-1800.

HAVING shown how appropriation bills were formed during the earlier days of the government, we have already entered a very extended field, which is well worth careful cultivation.

On what grounds did the secretary of the treasury base his estimate of probable receipts and expenditures, and how did the actual receipts and expenditures vary therefrom, and what were the causes of the variation? Again: how wisely or unwisely were the expenditures made? Were the revenues drawn from the best sources, and collected in the most economical and judicious ways? If not, how could Congress have ordered with greater wisdom?—these and many more equally important questions lie in the domain we are about to explore.

The constitution has provided that “no money shall be drawn from the treasury but in consequence of appropriations made by law.” The first appropriation bill was passed in 1789,<sup>1</sup> and provided for the following year. As the treasury department was not then created, a committee were appointed to make an estimate of the expenditure and revenue of the government. Gerry, who had

<sup>1</sup> Act, Sept. 29, 1 Cong., first session, chap. 23.



served for several years as a member of the board of treasury under the Confederation, was chairman.

The income from imports was estimated at \$1,467,086.03. This sum was insufficient to pay more than a small portion of the estimated expenditures. Consequently, no appropriations were made for interest, or for paying any portion of the foreign or domestic debt. The payment of interest on the latter was deferred: that due on the foreign debt was paid from the proceeds of loans negotiated abroad.<sup>1</sup>

The entire appropriation consisted of the following items: "a sum not exceeding \$216,000, for defraying the expenses of the civil list under the late and present government; a sum not exceeding \$137,000, for paying the expenses of the department of war; a sum not exceeding \$190,000, for discharging warrants issued by the late board of treasury, and remaining unsatisfied; and a sum not exceeding \$96,000, for paying the pensions of invalids." How great the contrast between this bill and the appropriation bills now annually passed!<sup>2</sup> The first special appropriation was \$20,000 for defraying the expense of negotiating with the Indians.<sup>3</sup>

The revenues were derived from imports, and the sale of public lands. Afterward internal taxes were added; and, lastly, the government resorted to direct taxation. Additional resources were derived from loans; but these,

<sup>1</sup> Gerry's Reports on Estimates, July 9, Aug. 27, Sept. 24, 1789, 1 Finance, p. 11. Baldwin's Report, May 22, 1794.

<sup>2</sup> In the appropriation bill of the next year was the sum of \$10,000 for contingent expenses, which the President was authorized to draw. Act, March 26, 1790, 1 Cong., second session, chap. 4.

<sup>3</sup> Aug. 20, 1789.

of course, were repaid: the money, therefore, obtained in this way, was simply in anticipation of the public revenues.

Heavy as was the burden of sustaining the new government, it had not been long in operation before an increase was inevitable. A war broke out on the frontier with the Indians, which required fresh outlays of money. Then the whiskey insurrection occurred, which cost the government a considerable sum. Not long afterward the Algerine difficulty arose. These exigencies were unavoidable, and appropriations were passed therefor without much contention. The Republicans, it is true, sought to acquire political capital from the settlement with Algeria, but they did not succeed in their endeavor.

The appropriation for creating a navy was the first that caused severe party clashing. American commerce was subjected to so many insults in the Mediterranean, that the Federalists favored the formation of a navy to resist all aggressions. In 1794 our affairs with Great Britain were threatening. The Republicans proposed to purchase peace with Algiers with money, rather than to build a navy, and win peace with a sword. In regard to the troubles with England, the Republicans did nothing to heal them. Finally it was voted to begin the construction of a few frigates, to be discontinued as soon as peace should be declared with Algeria. As the expenditure required additional revenue, parties antagonized over the mode of raising it. The Republicans favored the levy of a direct tax; the Federalists, the increase of internal taxes. The object of the Republicans in advocating a direct tax was to provoke enough opposition to the Fed-

eralists to drive them from power.<sup>1</sup> In 1796, no peace having been effected, authority was granted for building three frigates. These were finished, — the “Constitution,” “Constellation,” and the “United States.” The intensity of the Republican opposition to this policy did not abate.<sup>2</sup>

With Gallatin the question was, whether the creation of a navy should be postponed to the payment of the public debt, or whether the opposite policy should prevail. He was a stout adherent of the former view. In the session of 1795–96, when appropriations for the three frigates just mentioned were wanted, he said, “I am sensible that an opinion of our strength will operate to a certain degree on other nations, but I think a real addition of strength will go farther in defending us than mere opinion. If the sums to be expended to build and maintain the frigates were applied to paying a part of our national debt, the payment would make us more respectable in the eyes of foreign nations than all the frigates we can build. To spend money unnecessarily at present will diminish our future resources, and, instead of enabling us, will perhaps render it more difficult for us, to build a navy some years hence. . . . Perhaps I may be asked if we are then to be left without protection. I think there are means of protection which arise from our peculiar situation, and that we ought not to borrow institutions from other nations, for which we are not fit. If our commerce has increased, notwithstanding its want of protection; if we have a greater number of seamen than any other nation except England, — this, I think, points out the way

<sup>1</sup> Gibbs's *Adm.*, vol. i. pp. 122, 141.

<sup>2</sup> *Ibid.*, p. 349.

in which commerce ought to be protected. The fact is, that our only mode of warfare against European nations at sea is by putting our seamen on board privateers, and covering the sea with them : these would annoy and distress them more than any other mode of defence we can adopt." <sup>1</sup>

Such was the ground taken by Gallatin and his party ; and were they not essentially right? Giving credit to the glorious victories won by the three frigates then constructed in the war of 1812, what struck terror into the British heart was not the loss of a few men-of-war, but the depredations committed on her commerce by American privateers. Gallatin clearly saw that the United States was isolated from the nations of the Old World, and that the ocean could be surpassed, in the completeness of its protection, only by a sea of fire.<sup>2</sup>

No sooner had the Algerine difficulty been settled, and affairs with Great Britain adjusted, than the nation was agitated, not by a celestial visitant, but by our late beloved French ally. Her attitude was so threatening, that renewed preparations for war became necessary. The building of war-ships was continued, the Republicans maintaining their opposition. Fortifications were constructed, and troops were enlisted. A navy department was now created. But how were the expenses to be paid? The Committee of Ways and Means requested the secretary of the treasury to state the amount that would probably be required for these purposes, and the probability of obtaining a permanent loan of \$5,000,000 in irredeemable stock, based on new revenues, with an efficient

<sup>1</sup> Adams's Life of Gallatin, p. 170.

<sup>2</sup> *Ibid.*, pp. 170, 217.



sinking-fund. Wolcott estimated a decline of \$500,000 in import duties in consequence of spoliations and stoppages of commerce; but the internal revenues, he believed, would exceed by \$125,000 those of the preceding year, and \$200,000 were allowed for stamp-duties. Nor did he doubt that the Bank of the United States would consent to continue their loans, and that funds could be obtained in anticipation of any solid revenues that might be established. He was emphatic, however, in declaring, that, to obtain money on reasonable terms, means must be provided for its reimbursement.<sup>1</sup>

The committee thought there would be a surplus revenue of \$1,085,437.45, which, if not otherwise appropriated, would be applied in reducing the public debt.

<sup>1</sup> Gibbs's Adm., vol. ii. pp. 64, 65. Wolcott wrote to the Committee of Ways and Means, "It is not easy to form a certain opinion of the sum which can be immediately obtained on permanent loans, nor of the expense which will attend them. The United States are unquestionably entitled to credit on the most advantageous terms: the instalments in Holland, which became due prior to the present year, have been discharged; effectual remittances for the sums which will be payable before December next have been assured; the sums of stock which are offered for sale are not considerable; there is no ground for distrusting the public ability or good faith; the present prices of stock are not considered as indications of distrust, but of the high value of money at the present time. Assurances have been received, from wealthy and influential men, that they will assist the United States with loans on reasonable terms. On these grounds, I conceive myself justifiable in expressing an opinion that the public credit will afford resources adequate to any exigency which can be reasonably contemplated." But to insure the success of such loans, and especially to guard against a too common abuse of the system, Wolcott declared that it was of the utmost importance to establish competent funds for the reimbursement, in a reasonable time, of any sum that might be borrowed. The provision of a sinking-fund, such as the committee had suggested in their letter to him, he considered an indispensable requisite.

The sum they proposed to divert toward defraying the extraordinary war expenditures, which were estimated at \$2,482,143.<sup>1</sup> To meet the deficiency, and to pay two instalments of the debt due to the United-States bank for stock, and the interest and extinguishing annuity of that portion of the public stock which became payable after 1801, a direct tax of \$2,000,000 was laid. In anticipation of the amount that would be raised in this way, the President was authorized to borrow \$2,000,000, beside \$5,000,000 more, on the best terms possible. The stock was to be reimbursed in fifteen years. The surplus of the import and tonnage duties was pledged for the payment of the interest and principal, as well as new revenues, if these were not sufficient.

Another Act was passed, June 30, 1798, for an additional armament to protect trade; and the President was empowered to purchase a number of vessels, or contract for building them. Six-per-cent stock was to be issued to pay for them, payable at the pleasure of the government. Several vessels were obtained by this legislation, and the next year certificates to the amount of \$711,700 were issued. This stock was subsequently known as the navy six-percents.

With increasing expenditures, and congressional neglect to provide for paying them, the credit of the government weakened. There was, too, a sharper demand for money.<sup>2</sup> But the government must borrow, whatever the price might be. As Wolcott could not get it for less than eight per cent, he issued a stock bearing that rate of

<sup>1</sup> Harper's Report on Additional Revenues, May 1, 1798, 1 Finance, p. 579.

<sup>2</sup> Gibbs's Adm., vol. ii. p. 164.

interest, payable quarterly. The stock was irredeemable for five years, but, after that time, whenever the government desired. Wolcott regarded as a maxim of finance, that it was better to borrow the sum required at par, for a higher rate of interest, than for a lower one with a deduction from the principal.

In January, 1799, the loan was filled;<sup>1</sup> but the rate paid caused a loud outcry by the Republican party. It formed the groundwork of much criticism, and was one of the causes which contributed to the downfall of the Federalists. Yet it is very doubtful if money could have been borrowed at a much lower rate. Wolcott wrote in December, 1798, to Hamilton, "The result, of all the inquiries which I have been able to make, is, that a small sum might be raised by the gradual sale of seven and a half per cent stock at par, but that there can be no certainty that a loan would immediately be filled for

<sup>1</sup> Stephen Higginson, a prominent banker of Boston, wrote to Wolcott (Feb. 14, 1799), "Your proposals for a loan have been as well received here as I expected. A much larger sum than five millions might have been obtained, had it been wanted, and the existing laws authorized its being extended. At least such is the present appearance, judging from the eagerness of people here to subscribe, and what we are informed as to the disposition of people in New York and Philadelphia, etc. I am, however, at a loss to account for the ardor discovered in people to become subscribers; for the new loan will not prove more beneficial than the six per cents at the highest price asked for them. . . . Patriotism, or a desire to aid government by showing both an ability and disposition to furnish the funds wanted for public purposes, has an influence with many; but I suspect that the brokers and speculators in stocks have contributed much to excite that disposition, expecting to make a profit on the shares they may take in the loan by selling out early to those who may not succeed in getting so much invested in it as they now wish for." — *Gibbs's Adm.*, vol. ii. p. 179.

the sum we want under eight per cent.”<sup>1</sup> Within five years the same rate was again paid for money, including the exchange too, when payable abroad.<sup>2</sup>

The loan, therefore, was secured, and formed a part of the permanent debt. The navy six-per-cent loan also appeared in the same list after the year 1800.

Whether the policy of the Federal party in making expenditures for creating an army and navy to resist foreign aggression was the true one, as opposed to that of the Republicans, who put the payment of the public debt before it, is a question concerning which much may be said on both sides. It was the first sharp point of divergence between the two parties.

The next year the public expenditures were estimated at \$15,393,024.11; while the estimate of revenues, including money in the treasury, was placed no higher than \$10,301,258.51. The estimated deficiency, therefore, was \$5,091,765.60. Though the internal revenues had increased, the duties on imports and tonnage had diminished, while a larger expenditure was required to prepare the country for war. It was proposed to meet the deficiency by reducing the expenses in the navy and army departments \$1,600,000, and by a new loan of \$3,500,000. It was not necessary to borrow the whole amount, for the war-cloud rolled away. The same rate of interest was offered, but a premium was asked. The highest rate of interest asked by lenders was eight per cent, and no sales were made below five per cent.<sup>3</sup> Such were the extraordinary expenditures occasioned by the conduct of France.

<sup>1</sup> Dec. 21, 1798, Gibbs's Adm., vol. ii. p. 178.

<sup>2</sup> *Ibid.*, pp. 242-244.

<sup>3</sup> See Reports, 1 Finance, pp. 626, 643, 692.



Happily, peace was now so fully assured, that no unusual military expenditures were incurred for more than ten years.

Wolcott resolved to resign before the close of the year; and, when he announced his resignation to the House, he requested an investigation of the affairs of his department. He had held the office of secretary of the treasury during a considerable portion of Washington's second term, and nearly the whole of Adams's; and he longed to retire, especially since his relations with the President were no longer very agreeable. Wolcott had retained his portfolio longer than any other member of the President's cabinet; but he, too, now wished to be relieved. To his letter announcing his intention of resigning, Adams made a courteous and dignified reply; and after Wolcott retired, at the close of the year, Dexter, the secretary of war, administered the office during the sixty days remaining of the President's term.

A committee, as Wolcott had requested, faithfully investigated the affairs of his department. The history of Wolcott's negotiation of loans was traced, beside every other phase of his official life. The report was unanimous, and bore an honorable and gratifying testimony to the merits of Wolcott's public labors. The committee, in closing, expressed their opinion that the business of the treasury department had been conducted with regularity, fidelity, and economy; that the disbursements of money had always been legally made; that every attention consistent with the nature of the business had been bestowed in removing delinquents from office, in compelling them to account, in securing moneys due from them, and in

preventing an improper and unreasonable accumulation in the hands of public agents; that the loans had been procured upon the most advantageous terms, and the most eligible modes of remittance to Europe had been devised; and, generally, that the financial concerns of the country had been left by him in good order and prosperity.<sup>1</sup>

The loss arising from the delinquency of those concerned in the collection of the revenue from duties on imports and tonnage for the six years of Wolcott's administration did not exceed a hundred thousand dollars, — less than one-seventh of one per cent of the whole amount collected. In the collection of the internal revenue the loss was somewhat greater, which was attributed partly to the novelty of the system. This loss was estimated at fifteen thousand dollars.

On the 8th of November a fire occurred in the war department, and two months afterward another broke out in the department of the treasury. Furious attacks were made on the Federal officers; nor was Wolcott spared. There was an investigation; but no evidence whatever was adduced that Wolcott, or any other official, had been guilty of negligence or misconduct in regard to these occurrences. All the most valuable accounts and papers in the treasury office were saved, and the government sustained no severe loss from these events.

The work of contriving the financial machinery of the government, and of starting it, had been finished. The public debt had been funded, and efficient steps taken for paying it at maturity. The national bank was in successful operation. Internal taxes were laid. The system

<sup>1</sup> Otis's Report, Jan. 28, 1801, 1 Finance, p. 690.

of direct taxation was begun under Wolcott, who did much toward creating and executing it. He was successful in providing for all the public expenditures, including the borrowing of money needed to prepare the country for war. He administered the affairs of the treasury department at a trying time. The opposition were willing to incur debts, but were very slow in raising money to pay them. Under such circumstances, the administration of the finances was neither an easy nor a cheerful task. What man could have acquitted himself better than Wolcott?

## CHAPTER XII.

## APPROPRIATIONS AND EXPENDITURES.

1800-1812.

WITH the incoming of the century there was a new President, Jefferson, who appointed Albert Gallatin secretary of the treasury. Born in Switzerland, he emigrated to this country when he was nineteen years old. He had served in the State Legislature of Pennsylvania, and was elected to the United-States Senate, but was refused admission because he had not lived in the United States long enough to become a resident of the country. Afterward he was elected to the House; and there he displayed that aptness for finance which for many years rendered him one of the foremost figures in American politics. He had been altogether the ablest critic of the financial plans of his opponents. In political management no one has ever been more adroit than Jefferson, but he knew hardly any thing about finance. Gallatin, therefore, was an indispensable member of the presidential cabinet: and this is the reason why he retained office so long after he became unpopular with his own party; there was no one to put in his place.

Gallatin possessed a very clear and vigorous mind; and, while his system of finance is not marked by any striking ideas and suggestions, he was always painstaking, honest,



and ever zealous in promoting the strictest economy in all the concerns of the government. Though evincing something of a partisan spirit on a few occasions, the persons who have served the country so disinterestedly and efficiently are very rare.<sup>1</sup>

The debt having been funded, and the machinery set a-going for raising the means to pay it and the other expenditures of the government, Gallatin was confronted with no gigantic problems like those which blocked the path of Hamilton when he entered the treasury department. Friendly relations existed with all nations; the army and navy were reduced to the lowest point; the civil service was not burdened with useless officials; the debt had somewhat increased in consequence of preparations for war with England and France, but not in proportion to the increase of population and wealth. "Through all their troubles," says Gallatin's biographer, "the Federalists had so carefully managed taxation, that

<sup>1</sup> Said John Quincy Adams at a dinner given in honor of Albert Gallatin in New York in 1844, "I have lived long, sir, in this world, and I have been connected with all sorts of men, of all sects and descriptions. I have been in the public service for a great part of my life, and filled various offices of trust in conjunction with that venerable gentleman, Albert Gallatin. I have known him half a century. In many things we differed; on many questions of public interest and policy we were divided; and, in the history of parties in this country, there is no man from whom I have so widely differed as from him. But on other things we have harmonized; and now there is no man with whom I more thoroughly agree on all points than I do with him. But one word more. Let me say, before I leave you and him, — birds of passage as we are, bound to a warmer and more congenial clime, — that among all the public men with whom I have been associated in the course of my political life, whether agreeing or differing in opinion with him, I have always found him to be an honest and honorable man." — ADAMS'S *Life of Gallatin*, p. 676.

there was absolutely nothing for Gallatin to do; and he attempted nothing in regard to the tariff of impost duties, which were uniformly moderate and unexceptionable, while, even in regard to the excise and other internal taxes, he hesitated to interfere."<sup>1</sup>

"What Hamilton was to Washington, Gallatin was to Jefferson," says one who has studied his life and times with great care, "with only such difference as circumstances required." Madison, it is true, exerted a potent influence over Jefferson: in truth, the government was a triumvirate almost as clearly defined as any triumvirate of Rome. During eight years the country was governed by three men, — Jefferson, Madison, Gallatin, — among whom the latter "not only represented the whole political influence of the great Middle States, not only held effectively wielded the power of the purse, but also was avowedly charged with the task of carrying into effect the main principles on which the party had sought and attained power."

During the summer and autumn of the first year Gallatin perfectly mastered all the details of his office, and determined within what limits the expenditures of the several departments should be confined. The cabinet were in accord with respect to paying the debt, and that this should be done in preference to reducing taxes; but they were also desirous of reducing these. The only way, therefore, to effect both objects, was to lessen expenditures. This could be more easily done, so Gallatin thought, in the navy than anywhere else; but the secretary of the navy was disinclined to introduce any new economy in his department.

<sup>1</sup> Adams's Life of Gallatin, p. 274.

In response to the request of the President for the views of the secretary of the treasury concerning the revenue and expenditures of the government, in the autumn of that year he sent the following sketch:—

REVENUE.		EXPENDITURE.	
Imports . . . . .	\$9,500,000	Interest . . . . .	\$7,200,000
Lands, postage . . . .	300,000	Civil expenditures . .	1,000,000
		Military expenditures .	930,000
		Naval expenditures . .	670,000
	<hr/>		<hr/>
Total . . . . .	\$9,800,000	Total . . . . .	\$9,800,000

By applying the sum of \$7,200,000 to the payment of the interest and principal, he expected to pay in eight years \$38,000,000 of the debt. Fixing this as the amount which ought to be paid, and estimating the revenues at \$9,800,000, he proposed that the departments should live from the balance, \$2,600,000. If this could be done, he was willing to part with the internal revenues, which yielded \$650,000, but not otherwise. "This," as Adams says, "seems to have been beyond his power. Few finance ministers have ever pressed their economies with more perseverance or authority than Mr. Gallatin, but he never succeeded in carrying on the government with so much frugality as this; and the sketch seems to indicate what the administration would have liked to do, rather than what it did." For, in his report made a month later, he was obliged to modify his plan thus:—

REVENUE.		EXPENDITURE.	
Imports . . . . .	\$9,500,000	Interest, etc. . . . .	\$7,100,000
Lands, postage . . . .	450,000	Civil expenditures . .	980,000
Internal revenues . . .	650,000	Military expenditures .	1,420,000
		Naval expenditures . .	1,100,000
	<hr/>		<hr/>
Total . . . . .	\$10,600,000	Total . . . . .	\$10,600,000

Yet the internal taxes were abolished very early during Jefferson's administration, while Congress also adopted Gallatin's plan for the discharge of the public debt. How, then, were these ends effected? Under the pressure of party necessity, both the secretary of war and of the navy lowered their estimates to a point at which Gallatin consented to let the internal taxes go. He never officially recommended their repeal; but the Committee of Ways and Means did, having been assured by the secretary of war and of the navy that a reduction of six hundred thousand dollars would be made in the expenditure of their departments. The retrenchment, though promised, was never effected. Gallatin, however, had the good fortune to collect enough more revenue than he expected to supply the difference. Had not this event happened, there would have been a balance that year against the government. Gallatin was not to be thus favored very long. A war broke out with Tripoli, and further retrenchment in the navy department was impossible.

It soon became evident, that, even with larger duties from imports, the expenses of the war could not be met without recovering the income sacrificed by the repeal of the internal taxes in 1802. Accordingly, an addition of two and a half per cent was imposed on all imported articles paying an *ad valorem* duty. What had been done, therefore, was simply a shifting of the mode of collection; or, in other words, instead of raising a million dollars from whiskey, stamps, etc., this sum was raised on articles of foreign produce or manufacture. The extra tax was called the "Mediterranean Fund," and was supposed to be a temporary resource for the Tripolitan war.



Although Jefferson was never slow in words, in advocating economy, his course was singularly inconsistent with his professions. In his message the next year was a recommendation for dry docks at Washington. He had shown his message, before delivering it, to Gallatin for criticism, who remarked concerning that feature of it, "I am *in toto* against this recommendation, 1st, because so long as the Mediterranean war lasts we will not have any money to spare for the navy; and, 2d, because if dry docks are necessary, so long as we have six navy-yards, it seems to me that a general recommendation would be sufficient, leaving the Legislature free either to designate the place, or to trust the Executive with the selection." Sound advice, surely, but not heeded, in spite of the prediction of Gallatin, who told the President that his recommendation would not command thirty votes in Congress, the truth of which prophecy Jefferson in due time learned.<sup>1</sup>

During the first five years of Gallatin's administration of the finances, he was strongly opposed to the creation of a navy. His thoughts centred deepest in paying the national debt; but it was redeemed so rapidly, that, in 1805, he wrote to Jefferson that after the year 1809 there would be \$3,500,000 of the annual sinking-fund available for other purposes. In the mean time there would probably be a surplus of \$2,000,000, a large portion of which he thought might be wisely employed in building a navy. As he had a clear idea of the incapacity of the secretary of the navy, Robert Smith, to expend the money economically, he urged putting it into the hands of commissioners. No money, however, was then appropriated for that pur-

<sup>1</sup> Adams's Life of Gallatin, p. 306.

pose; though, had the secretary of the navy been an abler and better man, very likely the ideas of Gallatin would have hardened into legislation.

Thus far Gallatin's administration had been successful. His report at the close of 1805 showed that the revenue had risen to \$12,672,000; which, with the income of the Mediterranean Fund and of the land-sales, carried the receipts of the government nearly to \$14,000,000. The surplus in the treasury, after meeting all the regular expenditures, navy deficiencies, and French claims, would still probably exceed \$1,000,000. The debt was reduced so far, that, in four years longer, the entire sum redeemable solely by the determination of the government would be discharged. The rest could be redeemed only by purchase, or by waiting until the law permitted its redemption. "Should circumstances render it eligible," says Gallatin, "a considerable portion of the revenue now appropriated for the payment of the debt may then, in conformity with existing provisions, be applied to other objects."<sup>1</sup>

The following year was a still more prosperous one. The regular revenue exceeded \$13,000,000; other receipts swelled the amount \$1,500,000 more; \$2,000,000, which had been appropriated for the purchase of Florida, had been supplied from the surplus, and sent abroad; the Tripolitan war was over; a surplus of \$4,000,000 was left in the treasury; and only three years remained, when some disposition must be made of the excess of revenue. With such a rich prospect lying before him, the pleasing inquiry arose, Should the taxes be reduced, or should

<sup>1</sup> Adams's Life of Gallatin, p. 348.

the revenues be applied in new ways, and, if so, in what ones? Jefferson and Gallatin both believed, that, while it might be desirable to lessen the taxes in some directions, the nation would gain far more by continuing the system without any large reduction, and applying the surplus not needed for the regular expenditures and the payment of the public debt, in making internal improvements, and in founding a national university. The report of the commissioners who had been appointed to lay out the Cumberland road, extending from the Potomac to the Ohio, was laid before Congress in 1807. A month later the coast-survey was organized. Shortly afterward the secretary of the treasury was directed to prepare and report to the Senate a general scheme of internal improvement.

Gallatin had as strong a passion for organization as Hamilton. He was, indeed, a financial genius of the highest order; and, though very exact in every detail, he also took a lofty and wide range of things. His report shows how thoroughly he had mastered a great theme.

The expense of his scheme of internal improvements he estimated at \$20,000,000. He proposed to appropriate \$2,000,000 a year until they were finished. The report embraced a series of roads and canals connecting various parts of the country; and, by selling the stock created for building them, Gallatin counted on the fund becoming a permanent resource for further improvements. He was prevented from realizing more than two features of his plan. One was the establishment of the land-system; and the other, the Cumberland road. As early as 1796 he had framed an Act for establishing a land-system. It



applied, however, only to the lands lying north-west of the Ohio River, in which the Indian titles had been extinguished; and it provided for laying these out in townships six miles square, and for selling the land in sections, under certain reservations. When he became secretary of the treasury the system was fully developed, for he always retained his interest in this peculiar property of the government.

At this time Jefferson launched his famous gunboat scheme. He sent a special message to Congress respecting it in the winter of 1806-7, recommending the government to build two hundred of them. Robert Smith, the secretary of the navy, was as hearty a supporter of this foolish scheme as Jefferson himself. Gallatin thought differently. He was "clearly of opinion" that the seventy-three in course of construction were more than enough. "Of all the species of force which war may require, — armies, ships-of-war, fortifications, and gunboats, — there is none which can be obtained in a shorter notice than gunboats, and none, therefore, that it is less necessary to provide beforehand." No argument that Gallatin could urge moved Jefferson. Two years later Paul Hamilton, who was then secretary of the navy, reported that a hundred and seventy-six had been built, though only twenty-four were in actual service. The aggregate expense to that date had been \$1,700,000, or about \$725,000 a year. In 1807 the entire naval expenditure was \$1,722,000, which increased the next year to \$1,900,000. How different were these figures from the \$650,000, fixed at the beginning of Jefferson's administration as the total annual expense for maintaining the navy department!



“Had all this expenditure improved the national defences, the waste of money would have seemed less outrageous, even to Mr. Gallatin, who was its chief victim; but, as most naval officers expected, the gunboats were in some respects positively mischievous, in others of very little use, and they were easily destroyed by the enemy whenever found. At the end of the war of 1812, such of them as were not already captured, burned, wrecked, or decayed, were quietly broken up or sold.”

The commercial growth of America had been so great that England resolved to crush it. Canning was prime minister. The administration woke up to the realization of England's new policy when the news came that the “Chesapeake” had been captured by the British ship-of-war “Leopard.” The first measure of defence was an embargo. Adams truly says that Jefferson, and most of the leaders of his party, had a strong faith in the efficacy of commercial regulations. They believed, that, as the commerce of America was valuable to England and France, therefore these countries might be forced to do our will by depriving them of our commerce. They were right in the end; but unhappily England did not find out where her true interest lay, until after a five-years' experiment and a costly war. But Gallatin had no faith in the efficacy of an embargo to restrain belligerent powers, and in due time his prophecy proved true.

If war must come, loans would be necessary; and the embargo would produce a situation most favorable for making them. All that the treasury required, so Gallatin thought, beside economy, was to double the import duties, to limit the system of granting drawbacks on impor-

tations afterward exported, either to repeal or to complete the non-intercourse law, and to reform the system of accountability in the army and navy departments.

The navy had not been economically managed since Jefferson assumed office. The same person administered its affairs (Robert Smith), who had spent a great deal of money, but had only a very little to show for his expenditures. Finally, it now appeared that he had bought bills of exchange to the amount of \$250,000, within two years, of his brother, Gen. Smith, who was then a member of the Senate from Maryland; and from his connections, and on the face of the accounts, it appeared that these were, to some extent, accommodation bills: in other words, that the government money had been left by collusion in the possession of Gen. Smith's firm until they could conveniently remit it to its destination. When this proceeding became known, one effect was to estrange very completely a group in the Senate who belonged to Gallatin's party, and whose influence was indispensable to his maintaining control over that body.

His report for 1809 announced a deficit. This was a part of the price of the embargo. For the next year he declared that a loan of \$4,000,000 would be required, if the military and naval expenditures should be as large as those of the previous year. If Congress should resolve on a permanent increase in the military and naval establishments, additional duties would be required; if not, a continuation of the Mediterranean Fund would be sufficient.

The country was swiftly nearing the point of war; yet the cost of waging it was a highly important matter,

which Congress, nevertheless, shrank from considering. Under the operation of the embargo, the revenues were rapidly diminishing, while the expenses were far more rapidly swelling. Neither the President nor Gallatin recommended war, but they were desirous of providing for it; and the secretary recommended increased taxes, and a loan of \$1,200,000, to pay troops, and to support them. When war was really imminent, the Committee of Ways and Means requested Gallatin to appear before them to discuss the question of war taxes. He appeared; and, after declaring that he did not feel himself particularly responsible for the position occupied by the nation, he added, that it could not recede therefrom with honor and safety, and that it must maintain that position with all the available means which could be brought to bear on the enemy, and that a system of increased taxation, which he fully set forth, ought to be immediately put into operation.

These declarations fell like an unexpected thunderbolt on Congress. The clouds had, indeed, long been gathering; but Congress would not look up and see them. Now, when the very bolt of Jove had descended, Congress could no longer ignore the perils of the situation. They had been willing to authorize loans; but they had resolutely turned their faces away from Gallatin's recommendations to increase the taxes, notwithstanding his repeated warnings and urgent requests.

A letter afterward written to the chairman of the Committee of Ways and Means intensified and widened opposition to him, which had been increasing, even in the face of approaching war. It was a sad and humiliating spec-



tacle to behold Gallatin strenuously exerting all his great energies to prepare his country for the coming struggle, and this cabal madly trying to overthrow him and all his works, no matter how manifest was their wisdom, or great their necessity. Their conduct truly resembled that of the Jesuits after the terrific earthquake at Lisbon, who were not less remitting in their intrigues against Carvalho, notwithstanding his devotion to the work of burying the dead, and rescuing the living. During the earlier years of Gallatin's administration of the treasury, he had exercised an extraordinary power over his party in Congress, and also over Jefferson. This was due mainly to the fact that he was almost the only one who knew any thing about the national finances. Jefferson had at all times trusted his faithful and able secretary. He had clung to him as his sheet-anchor, although not always in favor of the secretary's economies, especially in the navy department. Yet Jefferson would often yield to the superior reasoning of Gallatin, as we have shown.

While Gallatin was far more capable of administering the duties of his office than any other member of his party, it was easy to see, that, possessing such strict notions of economy and honesty, he would eventually create a very rank hostility to himself. At last it had become so great as to paralyze his influence. Yet when he abdicated, and went abroad to negotiate a treaty, he was never more sorely needed in the treasury department. Still it was useless for him to remain. Hostility toward him had become so strong, that he could remain no longer with credit to himself, and profit to his country.

He did not resign his office, but went abroad retaining



it, as Jay did the chief-justiceship of the United-States Supreme Court while negotiating a treaty with Great Britain. But Gallatin's enemies refused to confirm his nomination for the new post unless he resigned the other, and so at last his resignation was sent. The faction opposed to him in his own party had finally triumphed. They had succeeded in getting him out of the treasury, but their effort to break him down had proved very costly to the nation. The financial legislation of Congress, during the dreary and inglorious period of the war, is clearly explicable, when viewed chiefly as an unpatriotic effort to destroy the influence of the most competent financier then living. The faction which accomplished this fell purpose, by no means constituted a majority of the controlling party; but they were active and unscrupulous. The President feared them: consequently they possessed a tremendous power, which they wielded primarily to destroy Gallatin, even if in so doing they imperilled the country itself.

## BOOK II.

FROM THE OPENING OF THE WAR OF 1812 TO ITS  
CLOSE IN 1815.



## CHAPTER I.

### WAR-LOANS.

GALLATIN saw the deepening war-cloud several years before it burst. Like a prudent statesman, he informed Congress what preparation ought to be made for so unwelcome an event. The accumulation of a war-fund, and the renewal of the bank charter, were suggested: so were additional taxes and loans. The credit of the government at that time was not impaired, either at home or abroad; and he believed "that loans to a reasonable amount might be obtained on reasonable terms." The banks, too, would be likely to loan "a considerable portion of their capital stock;" for, if war occurred, American commerce would shrink, and no other avenue would be open for employing their resources.<sup>1</sup> Their capital was supposed to be forty million dollars.

A year afterward Gallatin reiterated his opinion that "loans should be principally relied on in case of war." That opinion, he declared, had been corroborated by every subsequent view which he had taken of the subject, and by the present situation of the country. The embargo had brought into the United States, and kept there, almost all the floating property of the nation.

<sup>1</sup> Annual Report, Nov. 7, 1807. Ibid., Nov. 25, 1811.



Whilst the depreciated value of domestic products increased the difficulty of raising a considerable revenue by internal taxes, at no former time had there been so much specie and unemployed capital in the country. The high price of public stocks, and, indeed, of all kinds of stocks, the reduction of the public debt, the unimpaired credit of the government, and the large amount of existing bank-stock in the United States, left no doubt of the practicability of obtaining the necessary loans on reasonable terms.<sup>1</sup>

The plan of finance proposed by Gallatin at the outset of the struggle was very simple: it was to raise a revenue, during each year of the war, equal to the expense of the peace establishment, including interest on the remainder of the old debt, and also on future loans, and to defray the extraordinary expenses of the war from borrowed money.

In January, 1812, he wrote a letter to the committee of ways and means, at their request, concerning the need of increasing the revenue. One of the inquiries in their communication to him related to the terms on which loans amounting to at least \$10,000,000 annually could be obtained. To this question he replied, that the terms could be ascertained only by experiment. The government had never, since its organization, obtained considerable loans within the United States at the rate of six per cent a year, except from the Bank of the United States; and these had not exceeded \$7,000,000. Of course, in proportion to the amount wanted for the service of the year, and to the increase of stock of the public debt in

<sup>1</sup> Annual Report, Dec. 16, 1808.

market, must the terms become less favorable. Beside the sum required to defray the extraordinary expenses of the war, an annual loan, equal to the annual reimbursement of the six-per-cent and deferred stock prescribed by law, would be wanted. The loan for this sum would not create any addition to the debt, but would, of course, increase the sum needed. Moreover, if the price of stocks fell below par, the commissioners of the sinking-fund were bound by the existing laws to apply the residue of the annual appropriation of \$8,000,000 a year to the purchase of stock. That residue for the year 1812 amounted to \$3,640,000, which the secretary of the treasury would also be required to borrow.<sup>1</sup>

The first war-loan was authorized in March, 1812, about three months before war was formally declared.<sup>2</sup> The President was authorized to borrow \$11,000,000 at six per cent interest, payable quarterly, and the principal within twelve years from the beginning of the following year. Stock was to be issued for the amount borrowed, and the public revenues were pledged for its payment.<sup>3</sup>

If war must come, surely it was the duty of the government to make adequate preparation. Yet the opposition to Gallatin among the members of his own party in Congress was so strong, that they seemed more desirous of crushing him than in preparing the nation for the contest with Great Britain. The day the loan-bill was passed he wrote to Nicholson, his father-in-law, "We

<sup>1</sup> Ways and Means Report, Jan. 20, 1812, 2 Finance, p. 523.

<sup>2</sup> Act, March 14, 12 Cong., first session, chap. 41.

<sup>3</sup> For documents relating to loan, see Niles's Weekly Reg., vol. ii. pp. 91, 194.

have not money enough to last till the first of January next, and Gen. Smith [who was the Republican leader in the Senate opposed to Gallatin] is using every endeavor to run us aground by opposing every thing, — treasury-notes, double duties," etc. It may be asked, "Why did not the President select another man for secretary of the treasury, who could secure the co-operation of his party?" The answer is, "Gallatin had occupied the position twelve years, and there was no other person so well qualified to discharge the duties of the office." To dispense with his services on the eve of war was a step which Madison never for a moment thought of taking. Not until Gallatin's power was nearly gone could the President part with him, and even then with great reluctance. Madison knew his worth, and, though fully comprehending the situation, retained him until Gallatin would remain no longer.

Subscriptions to the loan were opened on the 1st and 2d of May. The banks were invited to subscribe, and so were individuals. The former were permitted either to receive stock, or to loan money by special contract. No limit was set to the amount of subscriptions for any place, and the loan was kept open only two days. During that period \$4,190,000 were subscribed by banks, and \$1,928,900 by individuals. The last figure was larger than the aggregate of all the loans at six per cent ever before obtained by the government from individuals in the United States. Considering the price of stocks, and various obstacles which at that time impeded subscriptions, the amount was quite as great as there was any reason for expecting within so short a period. The sub-

scribers were required to pay one-eighth of the sum subscribed at the time of subscribing, and a similar sum on the fifteenth day of each month until the whole was paid. In case any one failed to pay the later instalments, the amount previously paid was forfeited to the government.<sup>1</sup>

At the time Gallatin reported what subscriptions had been made to the loan, he "submitted the propriety of authorizing the issue of treasury-notes," from which ultimately flowed grave consequences to the country. More than two years before, he had declared that these notes, bearing interest, and payable to order one year after date, might be annually issued to a moderate amount, and be put in circulation, both through the medium of banks, and in payment for supplies. They would be absorbed, he said, in buying the public lands, and in discharging revenue bonds; and the redemption of the residue could be effected by loans. To issue them in such a way was to anticipate the revenue, — a policy which Gallatin on a former occasion had quite severely criticised; but, though liable to abuse, he affirmed, that, if kept within strict bounds, their issue might facilitate the collection of the revenue, and the raising of loans. He recommended that no more be issued than the balance of the loan not subscribed; that five and two-fifths per cent a year be their rate of interest, which was equal to a cent and a half per day on a hundred-dollar note; that the time for their payment be one year from the date of issue; and that the notes be receivable for all dues to the United States. Receiving the recommendation favorably, Congress author-

<sup>1</sup> Gallatin's Communication to the House, May 18, 1812, 2 Finance, p. 564.



ized the President to issue five millions in the manner suggested by Gallatin.<sup>1</sup> They were transferable by delivery and assignment; and the commissioners of the sinking-fund were directed to reimburse them when due. They were also authorized to buy them, like other evidences of the public debt, at a price not exceeding par for the principal and interest due at the time of the purchase. Thus was launched a new financial experiment, the fruit of which ripened and fell after a short season.<sup>2</sup>

The military events of the first year of the war were most disastrous and humiliating to the American arms.<sup>3</sup> Preparations had been made with singular slowness; an American army was surrounded and captured at Detroit; incompetence was displayed alike in the war department and in the field; the fame of the navy was saved by the success of two or three frigates which had been built when the Federalists were in power, the construction of which was violently resisted by their political opponents; Jefferson's gunboats went to pieces: yet, notwithstanding these sickening disasters, Congress remained inactive.<sup>4</sup>

The expenditures for the army and navy had been made with no economy or efficiency. Gallatin had labored industriously but hopelessly to diminish them. He told Jefferson there were only two practicable ways to do this. One was to confine them to necessary objects; and the other was to introduce a perfect system, and

<sup>1</sup> Act, June 30, 1812, 12 Cong., first session, chap. 111.

<sup>2</sup> Ways and Means Report, March 21, 1810, 11 Cong., second session, 2 Finance, p. 412. Gallatin's Communication to the House, June 29, 1812, 2 Finance, p. 569.

<sup>3</sup> War was declared June 18, 1812.

<sup>4</sup> Adams's Life of Gallatin, p. 467.

suppress abuses in the necessary branches. "I have no doubt," he adds, "that knowledge and talents would save several millions, and the necessary business be better done."<sup>1</sup>

Early in October, Gallatin wrote to the President that the army and navy estimates would require a loan of \$21,000,000 for the year 1813, but he thought that such an amount was "unattainable." Little or nothing could be expected from banks, because they had "already lent nearly to the full extent of their facilities." The individual subscriptions had not exceeded \$3,200,000.

When Gallatin communicated his next report to Congress, near the close of the year,<sup>2</sup> \$7,415,200 of the loan had been subscribed in stock and in temporary loans, bearing six per cent interest; the sum of \$1,350,000 was reimbursable in 1813, \$750,000 in 1814, \$50,000 in 1815; and the amount of treasury notes issued was \$3,535,000.

Following Gallatin's recommendation, Congress authorized a loan of \$16,000,000, containing several new features.<sup>3</sup> The President was authorized to "sell the whole or any part of the certificates of stock issued for the sums to be borrowed," without any limitation whatever. This authority was doubtless conferred by Gallatin's suggestion, that, in order to facilitate the loan, it might "be eligible to leave some discretion with the executive" with respect to the amount of stock to be issued. The secretary of the treasury was authorized to employ agents, with the approval of the President, to obtain subscrip-

<sup>1</sup> Adams's *Life of Gallatin*, p. 469.

<sup>2</sup> Dec. 7, 1812.

<sup>3</sup> Act, Feb. 8, 1813, 12 Cong., second session, chap. 21.

tions, to whom one quarter of one per cent was allowed on the amount sold.

When Gallatin opened this loan, the treasury was nearly exhausted; "so nearly," says Adams,<sup>1</sup> "that on the 1st of April it was absolutely empty, and must have ceased to meet the requisitions of the war and navy departments. The Federalists were in high hope that the loan would fail, and government fall to pieces; and they made the most active efforts to force this result." To tempt subscribers, they were offered an annuity of a dollar for thirteen years on every sum of a hundred dollars subscribed; but this bait was not tempting enough to draw more than \$3,956,400 into the treasury, which were subscribed on the 12th and 13th of March. The experiment was repeated from the 25th to the 31st of the same month, and \$1,881,800 were subscribed. When the second notification was given, proposals were invited for loaning to the government the whole or any part of the sum that might remain unsubscribed on the first day of April. The secretary also stated, that, if the proposals differed, all should be placed on the same footing, including those who had previously subscribed. The government having thus placed itself at the feet of the money-lenders, they were willing to propose terms for loaning the money needed: indeed, proposals exceeded by \$944,200 the amount which could be received, beside \$1,000,000 subscribed too late by the State of Pennsylvania. The terms proposed by the lenders, in most instances, were, either that they should receive a six-per-cent stock, with interest payable quarterly (redeemable, at the

<sup>1</sup> Life of Gallatin, p. 477.

pleasure of the government, after 1825), at the rate of eighty-eight per cent, or a hundred dollars in stock for eighty-eight dollars in money; or that the lenders for every hundred dollars in money should receive a hundred dollars in the same species of six-per-cent stock, and an annuity for thirteen years from the 1st of January, 1813, of a dollar and a half, payable quarterly. In two proposals, however, was inserted the condition, that, if another loan for the service of the year 1813 were made under any other law prescribing different terms to lenders, it might apply to them if they desired. The former proposal was accepted, which was equivalent to a premium of  $\$13.63\frac{7}{11}$  on every sum of a hundred dollars loaned to the government. David Parish and Stephen Girard subscribed for half the loan, and John Jacob Astor for  $\$2,056,000$ .<sup>1</sup>

One reason why no better terms could be obtained was because Congress shrank from providing adequate revenues to maintain the government. Internal taxation was absolutely necessary, because the revenues from imports had heavily declined; yet, manifest as was the need of taking the step, Congress hesitated. Jones, who was now acting as secretary of the treasury, Gallatin having been appointed one of the three commissioners to make peace, very frankly declared that "the terms of the loan would have been more favorable, if the taxes had been previously laid."

Besides, the Federal party was opposed to the war, and very generally declined to loan money to the government.

<sup>1</sup> For terms of sixteen-million-dollar loan, see Senate Communication, July 29, 1813, 2 Finance, p. 646.



Opposition was strongest in New England, because her interests were so injuriously affected: at no period did she furnish much pecuniary support.<sup>1</sup>

The nature of Gallatin's contract with Girard and Parish was not publicly known at the time of making it, nor until the secretary was far away from Washington. When its terms were first made known in the Senate, a furious outcry arose. It could not be shown that Gallatin had exceeded his authority; and surely, if he could have obtained more favorable terms for the government, he would. That he was obliged to accept such hard conditions proved nothing against him; but they were a mournful proof of the pitiable plight of the government at the very outbreak of its struggle with Great Britain. Gallatin's object in hiding this information from the public eye was to prevent any immediate variation in the price of the stock. When all the facts surrounding the transaction appeared, the propriety of Gallatin's conduct was no longer questioned.<sup>2</sup>

Five millions of treasury-notes were authorized for the year; forming, however, a part of the sixteen-million loan. The secretary was also authorized to appoint agents to

<sup>1</sup> "The proceeds of loans (exclusively of treasury notes and temporary loans) paid into the treasury from the commencement of the war to the end of the year 1814 amounted to \$41,010,000.

"Of that sum, the Eastern States sent \$2,900,000; New York, Pennsylvania, Maryland, and the District of Columbia, \$35,790,000; the Southern and Western States, \$2,320,000. The floating debt, consisting of outstanding treasury notes and temporary loans unpaid, amounted on the 1st of January, 1815, to \$11,250,000, about four-fifths of which were also due to the Middle States."—GALLATIN, *Consideration on the Currency and Banking System of United States*, Writings, vol. iii. p. 284.

<sup>2</sup> Incidents in Life of Jacob Barker, pp. 42-44.

sell them, who were to receive a commission of one-quarter of one per cent.<sup>1</sup>

The expenditures greatly exceeding the estimates of the secretary, it was seen, before six months of the year were gone, that another loan must be made. This was fixed at \$7,500,000; but the Act contained a stipulation that no certificates of the stock should be sold at less than eighty-eight per cent.<sup>2</sup> Proposals were invited; and the offers were slightly better than those for the former loan, averaging \$88.25 in money for a hundred dollar in stock, which were equivalent to \$13.31 $\frac{1}{2}$  on each sum of a hundred dollars loaned to the government.<sup>3</sup>

In March, the next year, the President was authorized to borrow \$25,000,000, without restriction, save that the loan might be paid whenever the government desired, after twelve years.<sup>4</sup> A loan was opened the 2d of May for \$10,000,000 only, the secretary of the treasury believing he was more likely to succeed than if he attempted to get the whole amount at once. The sums offered amounted to \$11,900,806, of which \$2,671,750 were at less than eighty-eight per cent, and \$1,183,400 at less than eighty-five. Of the \$9,229,056 offered at eighty-eight per cent, a condition accompanied the offer of \$5,000,000, that, if terms more favorable were allowed to lenders for any part of the entire loan, the same terms should be allowed to all. Notwithstanding this condition, the need of money was so great that the loan was

<sup>1</sup> Act, Feb. 25, 12 Cong., second session, chap. 27.

<sup>2</sup> Act, Aug. 2, 1813, 13 Cong., first session, chap. 51.

<sup>3</sup> Jones's Report, Jan. 10, 1814, and accompanying papers.

<sup>4</sup> Act, March 24, 1814, 13 Cong., second session, chap. 29.

accepted. In doing so, the treasury thought of the early return of peace, the importance of maintaining in the mean time the public credit by sustaining the price of the government stock, and also that the contract was sanctioned by precedent. Had the five-million offer been rejected, the amount offered at eighty-eight per cent would have been reduced to less than \$5,000,000, — a sum altogether inadequate to the public demands; or, by depressing the stock to eighty-five per cent, only a little more than \$6,000,000 would have been received. Offers amounting to \$566,000 were subsequently made and accepted on the same terms as those described. Thus the loan was augmented to \$9,795,056.

The loan was to be paid in four instalments. Campbell was secretary of the treasury, but he possessed neither the requisite talents nor the physical strength to perform the duties of his office. Consequently the business of negotiating loans was very largely confided to Mr. Sheldon, the chief clerk, who was opposed to the war, and unceasing in his efforts to throw obstructions in the path of those who were trying to aid the government. It was agreed in the beginning, that, when instalments were paid, funded stock should be issued. When, however, the first instalment was paid, instead of issuing funded stock therefor, the secretary issued scrip certificates for the amount, retaining the stock as security for the payment of the other instalments. The holders desired stock, because they could pledge it to the banks or sell it; but they could do nothing with their certificates, save to keep them until all the instalments were paid, and then exchange them for stock.

After long importuning, the secretary concluded to issue certificates of funded stock for nineteen-twentieths of it. "This one-twentieth part," he says in a letter to Barker,<sup>1</sup> the largest lender, "is retained in scrip as the assurance for the payment of the next instalment." The certificates of stock did not mention a very important part of the agreement; namely, that, if subsequent participants in the twenty-five-million loan obtained better terms, they should likewise include all lenders of money to the government under that loan. This omission excited distrust and dissatisfaction. Such treatment of the lenders by the secretary did not improve the credit of the government. At a time when money was sorely wanted at almost any price, the policy of estranging public lenders by changing the conditions of a formal contract without their consent, was as unexpected as it was disastrous, both to the government and to individuals. Some of those who had promised to lend money were unable to fulfil their promises. Had the secretary of the treasury promptly issued stock when the instalments were paid, the lenders would have been able to borrow money by pledging the stock, and thus would have secured funds for paying further instalments.<sup>2</sup>

In August proposals were invited for a loan of \$6,000,000. The whole amount offered was only \$2,823,300; of which sum \$100,000 were at rates less than eighty per cent, and \$2,213,000 were at the rate of eighty dollars in money for one hundred dollars of six-per-cent stock. The remaining sum of \$510,300 was offered at various rates between eighty and eighty-eight. Notwithstanding the

<sup>1</sup> Incidents in the Life of Jacob Barker, p. 65.    <sup>2</sup> *Ibid.*, p. 78.



reduced rate at which the greater part of the money was offered, the market-price of the stock having fallen below eighty per cent, with no prospect of getting money on better terms, the amount offered, even at that low rate, was accepted. At that price there was another subscription for a small amount, but this was more than swept away by those who failed to execute their proposals; so that, of the \$6,000,000 wanted, only \$2,520,300 could be borrowed.<sup>1</sup>

The failure of this loan was intensified by the unpleasant consideration, that, having agreed to sell its stock at a discount of twenty per cent, the government was obliged to grant a further discount of eight per cent to those who had subscribed to the ten-million loan. The treasury department at first declined to issue supplemental stock for the difference, although its obligation to do so could not have been more clearly expressed. Moreover, to refuse to recognize the just claims of creditors at such a critical emergency, when the credit of the government had ebbed so alarmingly low, was an extraor-

<sup>1</sup> The finances were in such a low state, that many thought it would be impossible for the government to maintain its army and navy. The banks of New York refused to loan their bills without additional security. "It was understood, however, that, if treasury-notes indorsed by Gov. Tompkins were deposited, the money would be forthcoming. Rufus King immediately waited upon the governor, and acquainted him with the fact. 'I should be obliged to act on my own responsibility, and should be ruined,' replied Tompkins. 'Then ruin yourself, if it become necessary to save the country, and I pledge you my honor that I will support you in whatever you do,' exclaimed King. Oliver Wolcott, president of the Bank of America, and other prominent Federalists, uttered similar sentiments. Tompkins indorsed the notes on his own personal and official security, and half a million was promptly loaned." — MRS. LAMB'S *History of City of New York*, vol. ii. p. 648.

dinary act of folly. When Dallas succeeded Campbell, he readily acknowledged the justness of the claim, but required the lenders to waive every future claim of the kind, whatever might be the price of their selling government stocks. They insisted on receiving their supplemental stock. At the same time they would not relinquish any right that might spring from their contract. Jacob Barker, who was the heaviest lender, represented the whole number, and he pressed their claim with great energy. Finally Dallas acceded, and the supplemental stock was issued without any modification of the original agreement.

To evade the possible consequence of issuing more supplemental stock to the holders of the twenty-five-million loan, a new loan for three million dollars was authorized by Congress,<sup>1</sup> although the proceeds were to be devoted to the same purposes as the money derived from the former one. This subterfuge was too transparent to be successful.<sup>2</sup> The loan was opened, and the stock was taken principally by the banks west and south of New England; but having suspended specie payments, although they paid eighty dollars a share for their stock, their notes were equivalent only to sixty-five in specie, — the money in which the holders of the twenty-five-million loan had paid for their stock. These now insisted on receiving the difference of fifteen per cent in stock, but this claim was stoutly resisted. Dallas asked for proof of the claim. Just as the demand was, over forty years passed before the claim was allowed. Again and

<sup>1</sup> Act, Nov. 15, 1814, 13 Cong., third session, chap. 4.

<sup>2</sup> Incidents in Life of Jacob Barker, p. 103.

again was it placed before the secretary of the treasury and before Congress, but its acknowledgment was delayed. Not until 1855 did Congress render justice, and authorize its payment.

The experiment was now tried of negotiating a loan in Europe. These had been successful under the Confederation, and during the early years of the government; but from that quarter nothing could be drawn at this truly critical hour.<sup>1</sup>

There were now in circulation nearly \$8,000,000 of treasury-notes, more than one-half of which were redeemable in the last quarter of the year. A part of them, it was believed, could be replaced with new notes; yet more than \$6,000,000 would still remain in circulation, which the experience of the last two years had shown to be as many as would freely circulate while the public confidence in bank-notes lasted. The secretary of the treasury indulged in the hope of circulating a few more by issuing notes of a smaller denomination, but in no event did he expect that the amount would be increased.

The prospect, therefore, of raising funds to sustain the government, was indeed cheerless, and grew darker every day. All the banks, save those of New England, had suspended specie payments; and their issues were now

<sup>1</sup> To effect this purpose, the requisite powers and instructions were given for negotiating a loan for six million dollars, which was a part of the twenty-five-million loan authorized by the Act of March 24. Six-per-cent stock was transmitted with directions for selling it, if that should be found the most advantageous mode for obtaining the money (SEC. CAMPBELL'S *Report*, Sept. 26, 1814). Dallas says that three millions of stock were issued, and sent to Europe, but not sold (*Letter to Committee of Ways and Means*, Feb. 24, 1815).

resting on miry ground. Campbell was secretary of the treasury, and, though he had held the office for only a short time, was sinking under the heavy burden he was trying to bear. If more loans must be issued, he recommended that additional inducements be offered to capitalists to advance money, by providing an ample and unequivocal security for the regular payment of the interest, and reimbursement of the principal, of such loans as might be obtained. This could be effected by establishing an adequate revenue, and by pledging it specifically for that purpose. He also inquired whether the treasury-notes, by augmenting the rate of interest they bore, and securing their payment, as well as their eventual reimbursement, by an adequate revenue pledged for that purpose, would not have better credit, and their circulation be encouraged, and thus fulfil with more certainty the purposes of the government.

One thing was clear: the plan of finance adopted at the beginning of the war had proved unsuccessful. On no reasonable terms could loans be annually obtained for the amount of extraordinary expenditures occasioned by the war. Says Campbell, in his report to the Senate, "The experience of the present year furnishes ground to doubt whether this be practicable, at least in the shape in which loans have been hitherto attempted. Nor is it even certain that the establishing and pledging of revenues adequate to the punctual payment of the interest, and eventual reimbursement of the principal, of the sums which will be required for the service of the year 1815, would enable the treasury to obtain them through the medium of loans



effected in the ordinary way.”<sup>1</sup> He therefore favored the policy of deeper and wider taxation,—enough to pay a portion of the war expenditures.

A similar opinion was echoed by the Committee of Ways and Means a few months later. “A reliance on loans, in the present situation of this country, would be uncertain, and the terms on which they could be obtained not such as to induce a resort to them at the present moment.” The credit of the government was gone.

How, then, were funds to be provided for carrying on the war? The Committee of Ways and Means could think of no better mode than to issue treasury-notes, combined with a system of increased taxation. The want of some medium, it was affirmed, resting on a solid basis, uniting public confidence, and having a general instead of a local circulation, was universally acknowledged. The stoppage of specie payments by the principal banks of the Middle States had greatly embarrassed the operations of the treasury, and, by confining the circulation of notes to the limits of the States within which they were issued, had deprived the government of all facilities in remitting money which was afforded while public confidence gave to bank-notes a general circulation. The notes of New York and Philadelphia would not be received in Boston. The notes of Baltimore and of the District of Columbia would not answer for payments in Philadelphia. If, therefore, treasury-notes could supply the place of a circulating medium between the different States, they would greatly facilitate the operations of the government, and free the transactions of individuals from embarrassment. To

<sup>1</sup> Sept. 26, 1814, 2 Finance, p. 840.

secure these ends, the committee proposed to issue the notes in sums sufficiently small for the ordinary purposes of business; to allow the individual who held them to fund them, whenever he desired, at any of the loan-offices, and to receive the amount in stock of the United States, bearing eight per cent interest; to make them payable to bearer, and transferable by delivery, receivable in payment for public land and taxes; and, lastly, to pledge for the payment of the amount issued whatever internal duties were needed. To prevent an excessive accumulation of them, the committee proposed that the government should retain the power, after six months' notice, to redeem them with specie, or exchange them for stock bearing six per cent interest. If these things were done, and taxes were imposed which should manifest clearly the ability of the government to meet its engagements, they confidently believed the difficulties surrounding it would vanish, confidence be restored, "and the capital hoarded by avarice, or locked up from timidity," would appear in the accustomed channels of circulation.<sup>1</sup> Congress, however, declined to change the mode of issuing them; and \$7,500,000 were authorized in the former way, though at the time of doing this nearly \$22,000,000 were due and unpaid.<sup>2</sup>

Toward the close of the year, Jefferson suggested the expediency of issuing paper money gradually to the amount of \$200,000,000. "He had," says Gallatin, "from the imperfect data in his possession, greatly overrated the amount

<sup>1</sup> Report on the State of the Finances, Oct. 10, 1814, 2 Finance, p. 854.

<sup>2</sup> Dallas's Letter to Com. of Ways and Means, Dec. 5, 1814, 2 Finance, p. 877.

of paper currency which could be sustained at par, and he had, on the other hand, underrated the great expenses of the war. Yet we doubt whether," so Gallatin adds, "in the state to which the banks and the currency had been reduced, much greater issues of treasury-notes, or other paper not convertible at will into specie, would have become necessary, if the war had been of much longer continuance."<sup>1</sup>

The secretary recommended that authority be granted to emit \$15,000,000 of treasury-notes, in such denominations as he might direct, with the approval of the President. Those for twenty dollars or more were to be payable to order, and bear an annual interest of five and two-fifths per cent: those for a smaller sum were to be payable to the bearer, and carry no interest. They were to be exchangeable, however, in sums not less than one hundred dollars, for certificates of stock bearing seven per cent interest, and redeemable after twelve years from date. The notes were to be receivable in all payments throughout the country, but in such cases could be re-issued. They were to be payable in five annual instalments. The reimbursement of the notes was to be effected, either by the payment of the principal and interest to the holders, or by taking out of circulation and destroying the amount of the instalments in notes paid to the United States for duties, taxes, or other demands.

Two months later the secretary referred to the subject in a communication to the House.<sup>2</sup> The total issue, including those which had been ordered, was \$18,637,436.80. Shortly afterward Congress authorized the issue

<sup>1</sup> Writings of Gallatin, vol. iii. p. 338.

<sup>2</sup> Feb. 20, 1815.

of \$25,000,000, adopting the mode recommended by the secretary of the treasury.<sup>1</sup> The law was enacted the 24th of February.<sup>2</sup> It was soon discovered that the small notes, which were convertible into stock bearing seven per cent interest, though convenient for a circulating medium, were thus converted almost as soon as they were issued. Accordingly, their issue was restricted to cases of peculiar urgency, like paying the army preparatory to its reduction, payment of dividends on the public debt when local currency could not be procured, and the payment of an inconsiderable amount of miscellaneous claims. The total amount issued for these purposes to the end of September was \$2,777,860. A small quantity was sold for the purpose of raising funds to meet the general engagements of the treasury. The amount was \$1,365,000, which were sold at an advance of \$32,107.64. The notes of a larger denomination than twenty dollars, which could not be converted, were issued in larger quantity.<sup>3</sup>

About the same time that Congress was authorizing the issue of these treasury-notes, authority was granted for making the final loan of the war.<sup>4</sup> Dallas had recommended a loan of \$25,000,000 on the most advantageous terms that could be obtained. Congress limited the sum to \$18,452,800, and allowed the secretary of the treasury to accept in payment treasury-notes which had been previously issued.

<sup>1</sup> Dallas's Letter to Com. of Ways and Means, on Estimated Revenues for 1815, Feb. 25, 1815, 2 Finance, p. 910.

<sup>2</sup> 1815.

<sup>3</sup> Dallas's Annual Report, December, 1815.

<sup>4</sup> Act, March 3, 1815, 13 Cong., third session, chap. 87.



The loan covered the following issues of treasury-notes:—

Those payable on the 1st of January, 1815, the principal and interest of which, due and unpaid, amounted to,	\$2,799,200
Later issues . . . . .	620,000
Notes payable almost daily from the 11th of March, 1815, to the 1st of January, 1816 . . . . .	7,227,280
Those payable from the 11th of January, 1816, to the 1st of March, 1816 . . . . .	7,806,320
	<hr/> \$18,452,800 <sup>1</sup>

On the 10th of March a loan was opened for \$12,000,000, with the view, first, of absorbing a portion of the treasury-note debt; secondly, of getting funds for paying the unsubscribed arrearages of that debt; and, lastly, of aiding the treasury with a supply of the local currencies of different places in some proportion to the probable amount of the local demands.

The offers to subscribe to the loan prior to the 19th of April put money and treasury-notes on the same plane; but the offers greatly varied, swinging from eighty-nine per cent to seventy-five. Dallas was a very different financier from his two immediate predecessors: he quickly saw that a new course of proceeding was required, and he had boldness enough to enter upon it. He declared that neither the justice due to the public creditor, nor a fair estimate of the value of the public property, nor an honorable regard for the public credit, permitted the loan to assume the character of a scramble, shifting in price in every town and village of every State, according to the

<sup>1</sup> Dallas's Communication on the Public Debt, March 2, 1815, 2 Finance, p. 916.

arbitrary variations of what was called the difference of exchange. He declined, therefore, in the first instance, all the offers of subscription to the loan. At the same time, he declared that offers at the rate of ninety-five per cent would be accepted. In proposing this rate the secretary was moved by several considerations, — the value of the stock, the equitable and also the legal claim of the holders of treasury-notes, and the real condition of the public credit. Numerous offers were made at this rate, payable in treasury-notes or money, soon after the promulgation of the secretary of the treasury's decision. In the District of Columbia the money subscriptions (including the subscriptions of certain liquidated claims on the treasury) were successively at ninety-five, ninety-six and a half, ninety-seven, and ninety-eight per cent, and finally at par. In Baltimore the money subscriptions were at ninety-five and ninety-six and a half per cent. In Philadelphia all the subscriptions were at the former rate. On the 18th of June the price was raised at the treasury to ninety-eight per cent. No offers, however, were made at the increased rate, though they were still received at ninety-five and ninety-six per cent. The subscriptions payable in treasury-notes were made in all places at the same rate of ninety-five per cent. When Dallas made his annual report at the close of 1815, there had been received in money and treasury-notes \$9,284,044.38. Such is the history of the war-loans of 1812.<sup>1</sup>

<sup>1</sup> For these loans of \$80,000,000, the government obtained but \$34,000,000, after deducting discounts and depreciation. — *Report of Com. of Ways and Means*, April 13, 1830.

## CHAPTER II.

## TAXATION.

THE principal reason why the treasury broke down, during the war of 1812, was because Congress, in the beginning, dared not go deep enough into the pockets of the people. Gallatin and others saw, that, if war were declared, the resources of the government from imports would greatly diminish; yet for a long time Congress would not listen to the appeals of the treasury, either to increase the duties, or to introduce internal taxes. It is true that Gallatin at first hoped to escape from the painful necessity of resorting to internal taxation; and perhaps it might have been avoided, had Congress promptly heeded his advice, and levied higher taxes on imports. In his report for 1807, while remarking that it might be premature to enter into a particular detail of the several branches of revenue which might be selected, in order to provide for the interest of war-loans, and to cover deficiencies in case the existing revenue should fall below \$7,000,000, he did, nevertheless, tell Congress that the duty on salt, and the Mediterranean duties, could be immediately revived, and that the duties "on importations generally be considerably increased, perhaps doubled, with less inconvenience than would arise from any other mode of taxation." Indirect taxes, too, he declared, would

doubtless be cheerfully paid as war taxes, if necessary. Nor did he fear to remind Congress of direct taxation as a fountain whence resources might be drawn to maintain the government.

Congress, however, heeded none of his suggestions, save to make inquiry of him concerning the propriety of continuing the Mediterranean Fund. In his reply, he told the Committee of Ways and Means, that, if war occurred, the revenue would be so much affected, that additional taxes or duties would be required. The deficiency would not be felt during that year; but it would be the year following: it was expedient, therefore, to provide for the deficiency.<sup>1</sup> Congress was not so resolute in any thing as in refusing to face the situation.

Had the duties been doubled in January, 1808, the receipts into the treasury for that and the ensuing year would have been increased nine or ten million dollars. But they were not: consequently, during the year the revenues declined, because the embargo which the government had established was now in operation. Gallatin therefore urged an increase of the duties. He proposed continuing the Mediterranean Fund, and doubling all existing duties on importations. He also suggested the propriety of repealing that provision of the embargo law which allowed a drawback on articles exported more than one year after they had been imported. A modification, it was believed, would check speculations and monopolies. The diminution of importations had afforded sufficient profits on most of the articles which had been

<sup>1</sup> Letter to Chairman of Com. of Ways and Means, Dec. 28, 1807, 2 Finance, p. 263.



imported; and a provision which would have the effect of bringing those things into market, and lessening their price, would be beneficial. Another measure recommended by him was a non-intercourse Act with Great Britain. The causes which induced the adoption of a partial non-importation Act had ceased to exist. The selection of interdicted articles was founded on the possibility of obtaining them from other countries than England, and did not agree with existing circumstances. The Act had only increased the temptations, and created habits of smuggling, beside impairing the revenue. "A general non-intercourse Act," Gallatin contended, "would supersede that partial measure, and might be executed with greater facility." Under every event, he added, its repeal would be beneficial, and a permanent increase of duties on articles selected with reference to those which might be manufactured in the United States would be preferable.<sup>1</sup>

At this time no internal taxes, either direct or indirect, were contemplated, even if hostilities should occur. Except authority to borrow money, and the practice of economy in all the departments of the government, nothing more appeared necessary to Gallatin "than such modifications and increase of the duties on importations as were naturally suggested by existing circumstances."

But Gallatin's recommendations were not heeded. The next year, and the year following, they were faithfully repeated: still Congress refused to act.<sup>2</sup> As the country neared the verge of war, Gallatin's tones grew sharper;

<sup>1</sup> Annual Report, December, 1808.

<sup>2</sup> Ways and Means Report, Jan. 8, 1810, 2 Finance, p. 412.

but they fell on unlistening ears. American commerce was fast disappearing from the ocean; the national revenues were rapidly declining; the country was getting deeper and deeper into the toils with Great Britain and France; Jefferson was trying the shameful policy of playing the nation off between these two contending powers, firmly believing that either was willing to make almost any concession in order to secure its support. In truth, neither feared the United States, nor cared much for her influence. Congress became stupid, and manifested but little vigor, except when the faction opposed to Gallatin raised the cudgels to strike him, or plotted in secret to secure his overthrow. Thus the revenues continued to decline. Deficiencies were covered with the proceeds of loans. No new taxes were imposed until the close of 1811, when the Committee of Ways and Means could no longer evade the question of increasing the revenue. The chairman (Ezekiel Bacon) was a friend of Gallatin; and he asked the secretary several questions concerning an increase of the revenue, which drew forth an elaborate reply, that finally awakened Congress to a realization of the financial peril to which the country was exposed.

Believing, that, if war occurred, not more than \$2,500,000 of duties would be received, he declared, "without hesitation," that the rate of duties, in the event of war, might be doubled without danger or inconvenience. Should Congress do this, there would be less danger of smuggling than existed at that time. Even thus increased, they would be less on an average than those paid on importations in England, France, and most other

countries. They would be collected with more care by the government, and less inconvenience to the people, than could the same amount from any other source.

The long delay to increase the duties on importations had necessitated the collection of a revenue from internal sources. When Gallatin said, at the close of 1808, that no internal taxes, either direct or indirect, were contemplated, even in the case of hostilities against the two belligerent powers, a balance of \$14,000,000, nearly, was in the treasury. "Aware that this surplus would shortly be expended, and having stated that the revenue was daily decreasing, he had proposed that all the existing duties should be doubled on importations subsequent to the first day of January, 1809." The net revenues accruing from customs during the three years 1809, 1810, and 1811, without any increase of duties, had exceeded \$26,000,000. If the duties had been doubled, as Gallatin desired, there would have been \$20,000,000 on hand,—a sum greater than that proposed to be raised by internal taxes for four years. Moreover, he had expected a renewal of the charter of the United-States bank "in some shape, and on a more extensive scale." He had recommended an increase of its capital to \$30,000,000, on the condition of loaning one-half of it to the United States. The amount might have been easily increased \$5,000,000 more. With \$20,000,000, and loans secured for an equal amount, "without any increase of the stock of the public debt at market, internal taxation would have been unnecessary for at least four years of war, nor any other resource been wanted than an additional annual loan of \$5,000,000,—a sum sufficiently moderate to be obtained

from individuals, and on favorable terms. But, Congress having failed to do these things, internal taxation had become absolutely necessary. Gallatin proposed to raise \$5,000,000 in this manner,—\$3,000,000 by direct, and the remainder by indirect taxation.

Gallatin's letter was a surprise. The patient, cautious, long-suffering financier had never uttered such a sharp-toned message before. When Smith and Giles and their coadjutors came out of the Senate, shortly afterward, they appeared to be as astonished and dejected, if we believe the ancient story, as were those visiting the cave of Trophonus when they emerged into the light of day. Yet, unlike the priests of old, Gallatin had not excited Congress by terrible sounds or apparitions: he had moved the members powerfully by telling them the truth.

The Committee of Ways and Means made a report to the House, embodying faithfully the views of the secretary of the treasury. The necessity of providing a revenue "sufficient, at least, to defray the ordinary expenses of the government, and to pay the interest on the public debt, including that on new loans which might be authorized," was discussed without flinching. At the close of the report, the committee proposed a long series of resolutions, providing for a large increase of all duties on merchandise, tonnage, a retention of a portion of the drawback on goods exported, a duty on salt, beside levying internal taxes to the estimated amount of \$6,575,000, including stamp-duties on notes.<sup>1</sup>

The report of the committee produced a genuine sensation in the House. A fierce debate was opened, in which

<sup>1</sup> Ways and Means Report, Feb. 17, 1812, 2 Finance, p. 539.



the views of the secretary of the treasury were vehemently denounced. A powerful cabal had been formed in Congress, composed of Democrats who were bitterly opposed to Gallatin. The leader was Gen. Smith, a senator from Maryland, whose brother was secretary of the navy. From the beginning, Gallatin had been opposed to the secretary's extravagances. Indeed, as we have seen, some of his operations were colored with dishonesty. The cabal grew larger and stronger, and more jealous of Gallatin's power; and they were determined, first of all things, to break him down. Jefferson had stood by him for eight years, and Madison relied on him even more than his predecessor. But Madison was not firm; and, instead of doing his utmost to uphold Gallatin by crushing his enemies, he strove to preserve good terms with both factions of his party, and, in consequence, was fast bringing the organization into contempt. He ought not to have re-appointed Smith secretary of the navy; while Eustis, the secretary of war, was notoriously incompetent. Madison did not strengthen himself as he should in his cabinet. He did not try to sustain Gallatin until assistance was too late,—until the faction opposed to the secretary became strong enough to overthrow him. Yet the President had long known that Gallatin's enemies were unceasing in their efforts to drive him from the cabinet. Never before had a political faction composed of so few men exercised such a potent influence, and with so little regard for the welfare of their country.

Even now, when Gallatin had shown the necessity of immediate increase of taxation, and of unanimous and hearty co-operation in preparing for war, opposition to

him did not diminish. Wright of Maryland, who belonged to the Smith-Giles faction, thus addressed the House concerning the letter we have just described, which Gallatin had sent to the Committee of Ways and Means:—

“SIR, — At the last session, when the question for re-chartering the odious British bank was before us, we had to encounter the influence of the secretary of the treasury. . . . Now, at this session, he has told us, that, if we had a national bank, we should have no occasion to resort to internal taxes; thereby calling the American people to review the conduct of their representatives in not continuing that bank, and thereby to fix the odium of these odious taxes on the national Legislature. Now a system of taxes is presented, truly odious, in my opinion, to the people, to disgust them with their representatives, and to chill the war spirit. Yet it is, under treasury influence, to be impressed on the committee of ways and means, and, through them, on the House. Sir, is there any thing of originality in his system? No! It is treading in the muddy footsteps of his official predecessor, in attempting to strap round the necks of the people this odious system of taxation adopted by them, for which they have been condemned by the people, and dismissed from power. . . . And now, sir, with the view of destroying this administration, with this sentence of a dismissal of our predecessors in office before our eyes, — a sentence not only sanctioned, but executed, by ourselves, — we are to be pressed into a system known to be odious in the sight of the people.”

There was another class who regarded Gallatin's recommendations for internal taxes with disgust. They were his friends, who had acted with him in resisting the execution of the laws for the collection of a revenue in Penn-

sylvania in 1794. His old colleague, William Findley, was so deeply shocked at the re-introduction of the excise, that he would not even vote for printing his letter to the Committee of Ways and Means, which had been written at their request. They regarded his conduct as flagrantly inconsistent. But surely the situation required the adoption of a system of taxation not less deep and general than the one Gallatin had recommended.

Indeed, the only error in Gallatin's letter was, he did not call for enough taxes. He began by accepting the committee's estimate, that loans to the extent of \$50,000,000 would carry on a four-years' war. The war lasted two years and a half, and raised the national debt from \$45,000,000 to \$123,000,000, or at the rate of more than \$30,000,000 a year,—nearly three times the estimate.

Severe as was Gallatin's dose, the faction opposed to him were obliged at last to vote for the taxes, however distasteful. The other party was at this time co-operating with Gallatin in supporting several of his measures. The resolutions favoring the adoption of the new system were passed; and the Committee of Ways and Means were ordered to prepare and report bills for the levying and collection of the taxes,<sup>1</sup> embodied in the resolutions adopted by the House.<sup>2</sup> Unfortunately, the session was nearing

<sup>1</sup> Although there was an excise tax imposed on whiskey, yet the production and consumption were not checked thereby. Said Mr. Stewart of Pennsylvania, during the debate in 1824, "I very well remember, that, in the district of country I have the honor to represent, there was paid, during the late war, a heavy excise; yet there was never known a period of such prosperity to the manufacturer of whiskey. There was twice as much made then as there is now."—18 Cong., first session, *Cong. Deb.*, vol. i. p. 1502.

<sup>2</sup> Adams's *Life of Gallatin*, p. 454.

its close, and not enough time was left to prepare all the bills. An additional duty of one hundred per cent to the permanent duties imposed by law on imports was added, and ten per cent more on goods imported in foreign vessels, and an additional tonnage duty of a dollar and a half per ton on ships owned partly or wholly abroad.<sup>1</sup> The other measures proposed went over to the next session.<sup>2</sup> Instead of enacting them, Congress granted authority to the President to borrow money.

Gallatin's enemies could truly say of him, that the system he had proposed was essentially similar to the system adopted by the Federal party when in power, and which the other had stoutly opposed. It only remained for him to suggest the expediency of anticipating the taxes by issuing treasury-notes, to complete the reproduction of the financial system created by the Federalists, which only a few years before he had severely condemned. But his altered situation had caused a reversal of his ideas respecting the management of the public finances. Gallatin the critic, free from responsibility, was a very different person from Gallatin the official head of the treasury, charged with the duty of getting the needed funds to sustain the government.

<sup>1</sup> July 1, 1812. These duties were to be collected until one year after the conclusion of peace with Great Britain, and, consequently, until Feb. 17, 1816. The Act, with its several supplements, — imposing an additional duty, commonly called the "Mediterranean Fund," of two and one-half per cent on all imported goods paying duties *ad valorem*, and a discriminating duty of ten per cent on that additional duty, with respect to all goods imported in foreign vessels, — expired March 3, 1815. — DALLAS'S *Report on Tariff of Duties on Imports*, Feb. 13, 1816, 3 Finance, p. 85.

<sup>2</sup> Ways and Means Report, Feb. 15, 1813, 2 Finance, p. 613.



At the next session, which began in November, 1812, and closed the 3d of March the following year, it was supposed that all the legislation needed to enrich the treasury would be enacted. The tax-bills which had been postponed from the previous session, violent as they were at first thought to be, were quite unequal to the occasion, and stronger measures were needed. But Gallatin had ceased to have any control over the Senate, and the House was becoming almost as difficult to manage. The \$5,000,000 of revenue, which had been unexpectedly received from heavy British shipments immediately after the revocation of the orders in council, served to increase the sluggishness of Congress. Nor did the course of Cheves, who was now chairman of the Committee of Ways and Means, contribute to the success of the treasury.<sup>1</sup> He wished to force Congress to raise a revenue by abandoning the non-importation system, which was still maintained as a coercive measure against Great Britain. But Congress refused to grant relief in this way, while that body was equally averse to touching the tax-bills. So the session wore away without doing any thing whatever in this direction, save to lay a small duty on

<sup>1</sup> Eleven days after our government had declared war, and without knowing its action, the British Government revoked its orders in council, which had been the chief source of grievance in America. As soon as the revocation occurred, large quantities of merchandise were shipped from Great Britain on the faith of the Act of Congress of March 2, 1811, which promised a renewal of intercourse whenever those orders should be revoked. Even after the declaration of war became known, these shipments continued protected by British licenses from British cruisers. The amount of merchandise thus imported was nearly \$40,000,000, and the duties collected were about one-eighth of that sum.—ADAMS'S *Life of Gallatin*, p. 472.

iron wire,—an inglorious termination, surely, of the efforts of Congress, in view of the gloomy truth that the country financially was rapidly sinking so low as to alarm every one having any regard for its honor and safety.<sup>1</sup>

The needs of the treasury became so great, and the reliance on public credit grew so hazardous, that a special session of Congress was called to adopt relief. The foundation of a system of internal revenue was now laid. The objects selected for taxation were those which the experience acquired from the former experiment recommended as the most fitting. A series of measures was passed, the first of which related to the assessment and collection of direct taxes and internal duties. The amount which Congress expected to raise from this source was \$5,000,000. The continuance of these taxes was limited at first to one year after the termination of the

<sup>1</sup> During the war, numerous forfeitures occurred; but the most interesting question growing out of them took place when a large number of vessels were seized shortly after the breaking-out of the war. Those which had left the ports of Great Britain in good faith, belonging to Americans, before the declaration of war was known, and subsequent to the suspension of the non-intercourse Act, were released, on giving a bond to the treasury for the value of their cargoes. But the secretary was at a loss, under these peculiar circumstances, whether to remit or exact the forfeitures incurred. He referred the matter to Congress, but expressed the opinion, that, under the circumstances, one half the forfeitures due to the collectors ought to be remitted, and the other half, or its equivalent, exacted.

The subject furnished fuel for a hot debate. Langdon Cheves, chairman of the Committee of Ways and Means, led the Federalists in a vigorous assault upon the treasury. Jonathan Roberts of Pennsylvania, who was also a member of the same committee, defended the views of Gallatin. In the end, Cheves triumphed, and the forfeitures were entirely remitted by the very close vote of 63 to 61.—ADAMS's *Life of Gallatin*, p. 472. *Ways and Means Report*, Nov. 25, 1812, 2 Finance, p. 570.

war, and they were called the "war taxes." By subsequent laws almost all the existing revenues were pledged toward defraying the expenses of government, paying the public debt (principal and interest), and creating an adequate sinking-fund gradually to reduce, and eventually to extinguish, the public debt, until those purposes should be accomplished, or until Congress should provide and substitute by law, for the same purposes, other duties equally productive. A direct tax of \$3,000,000 was laid and apportioned to the States, respectively, for the year 1814. A duty of four cents per pound was laid on all sugar refined within the country. An annual duty was imposed on carriages for the conveyance of persons, which was graduated from twenty dollars to one-tenth of that sum. The distillers of spirituous liquors were required to pay duties on licenses, the amount of which depended on the capacity of the still, the time of using it, and the materials consumed. The retailers of wines, spirituous liquors, and merchandise, were also required to pay a license, the amount of which varied with the place of retailing, and the nature of the thing sold. A duty was laid on sales at auction, of merchandise and of ships and vessels, at the rate of one per cent of the purchase-money of goods, and of twenty-five cents for every hundred dollars of the purchase-money of ships and vessels. A duty was laid on the notes of banks and bankers, on bonds, obligations, or promissory notes discounted by banks or bankers, and on foreign and inland bills of exchange above fifty dollars, and having one or more indorsers, graduated by the nominal amount of the instrument. Beside these direct and internal taxes, a duty of twenty



cents per bushel was imposed on salt imported into the United States.<sup>1</sup>

Large as was the increase of taxes, the income of the government fell far below its expenditures. In September, the year following, the secretary of the treasury announced that the direct tax had produced considerably less than the amount expected, and that, to provide for the wants of the government, Congress must consider the expediency of increasing that tax, as well as the present internal duties, and also what new objects of taxation could most advantageously be subjected to the burden. The government had failed to borrow all the money needed; and the secretary considered the necessity of changing the plan of finance adopted at the outset of the war, and of raising money by taxes, to bear a portion of the extraordinary expenditure which the government was now incurring. "This would have a tendency," he said, "to insure public confidence, and preserve and confirm public credit."<sup>2</sup>

Eppes, the son-in-law of Jefferson, was chairman of the Committee of Ways and Means. He was not a brilliant man, and his knowledge of finance was scanty. His committee adopted the views expressed by the secretary of the treasury. Additional taxation was declared neces-

<sup>1</sup> During the debate on the internal revenue bill in 1793, an additional clause was proposed, preventing inspectors from interfering, directly or indirectly, in elections, beyond giving their own votes. Their power was feared. The amendment, however, was not adopted, though receiving a large number of votes (*Ann. of Congress*, 1 Cong., p. 1876). Even the strongest opponent of an internal revenue bill in 1814 was haunted with no such fear.

<sup>2</sup> Report to Congress, Sept. 26, 1814.



sary. In embodying this conclusion in a tax-law, the committee said they had been careful to put the burden equally on every portion of the community. The report recommended much heavier taxation of the manufacturing than of the agricultural interest, based on the following reasoning: "in Europe the price of agricultural products is not materially affected by a state of war: the produce of the earth is there consumed within the country, in peace and in war. The situation of the United States is totally different. With an extensive and fertile country, and a small population compared to the extent of our territory, we have annually a large surplus to export to foreign markets over and above what is necessary for consumption. On the export of this surplus, which is cut off by war, depends, in a great degree, the ability of the farmer to meet taxes. While, however, war depresses the agricultural interest, it gives vigor to various manufactures. By destroying all foreign competition, the war has brought many of these manufactures to a state of perfection, which will secure their successful prosecution, even after peace shall be restored. In times of real difficulty and danger, we must appeal to the patriotism of every class of our citizens. These establishments, under the fostering hand of the government, have grown to maturity, and will not hesitate to bear, with the agricultural interest, their portion of the taxes necessary to maintain unimpaired that character for punctuality and good faith for which the American Government has heretofore been distinguished." The committee then recommended a heavy increase of all the taxes previously laid, beside new ones on manufactures,

furniture, watches, and other articles.<sup>1</sup> Subsequently Dallas, the successor of Campbell as secretary of the treasury, supported these recommendations.<sup>2</sup>

The House accordingly proceeded to consider the recommendations contained in the report. The resolutions embraced therein covered a wide field, and Congress first considered the stamp-duty to be paid by bankers. The Act of the previous year had provided that the secretary of the treasury could make an annual composition with any banks or companies, in lieu of the stamp-duty. The amount to be given was one and a half per cent on the amount of the annual dividend paid by those institutions to their stockholders. But the Act did not apply to the banking operations of individuals; and Stephen Girard, and others also who were engaged in a private banking business, were desirous of having the law made broad enough to cover them. The defect was an obvious one, and Congress did not hesitate to pass the amendment desired.<sup>3</sup>

The next measure increased the duties on carriages, and changed the mode of laying them. The duty on no object of internal taxation had been collected with so much difficulty as the duty on carriages, either under the old or the existing system, between which there was considerable resemblance. It was plain that the duty was extremely unequal. So great was the inequality, that the small sum of two dollars, the lowest tax, was frequently

<sup>1</sup> Ways and Means Report, Oct. 10, 1814, 2 Finance, p. 854.

<sup>2</sup> Letter to Chairman of Committee of Ways and Means, Oct. 18, 1814, 2 Finance, p. 866.

<sup>3</sup> Girard's Letter to Congress, Oct. 26, 1814, 2 Finance, p. 869.

paid on carriages of greater value than those which had paid four or five times that amount. This inequality proceeded from an erroneous principle of classification. This was the kind of springs used, and which were rarely a true criterion of their value. It was clearly seen, therefore, that the duty ought to be graduated by the value of the carriage; for no classification founded on name or form could equalize the duty.<sup>1</sup> So the law was changed, and the rate of duty was based on the valuation of the carriage. Those which were exclusively employed in husbandry, or in transporting goods, were exempt from the operation of the law: indeed, they had been, under all previous enactments. A duty on harnesses also was added.

An attempt was made to tax salaries; but this failed, the Committee of Ways and Means remarking, that, "in the United States, according to the principles of our government, no salary can be allowed, except as a compensation for public service. A tax operates as a deduction from the salary; and such a tax, as far as respects the officers of the United States, would be an admission, on the part of the legislative body, that, in fixing the salaries of their public officers, the public interest had been disregarded, and more than a just compensation allowed." It had been proposed to tax the income of lawyers, solicitors, and counsellors. To this proposition the committee replied, that to select a particular class of the community, which already paid, in common with others, a tax on property and on consumption, and impose on its members an income tax from which every other class

<sup>1</sup> Smith's Letter to Secretary of Treasury, Nov. 15, 1814.



was exempt, would be a departure from that system of equal and exact justice which ought to form the basis of legislation in a free country. It was also proposed to tax the legal proceedings of courts. "This tax," said the committee, "if confined to the courts of the United States, would be unproductive; if extended to the State courts, difficult in the collection. It would fall principally on the necessitous and unfortunate, and produce collision with the State authorities." These propositions, therefore, did not receive the sanction of the committee, and were not embodied in legislation.<sup>1</sup>

The direct tax was raised to an annual sum of six million dollars, and was extended to the District of Columbia. The duty on licenses to distillers of spirituous liquors was continued, and a duty on spirits distilled was added. The duties on sales at auction, and on licenses to retail wines, spirituous liquors, and foreign merchandise, were raised. The rates of postage were increased fifty per cent.

New duties were permanently laid on a large variety of manufactures, and pledged for the payment of the expenses of the government and the public indebtedness. Congress, however, declared, that, as long as these duties were imposed, the duties payable on similar goods imported into the United States should not be discontinued nor diminished. As previously mentioned, duties were also laid on household furniture, and gold and silver watches. Furthermore, the secretary of the treasury was authorized to anticipate the collection of the duties laid on spirits distilled within the country, and the licenses on

<sup>1</sup> Ways and Means Report, Dec. 3, 1814, 2 Finance, p. 873.



the capacity of the stills, by obtaining a loan for six million dollars at six per cent interest. He was to apply the money, however, for the same purposes as the duties had been pledged.

This series of Acts completed the legislation of Congress for providing revenues to maintain the government, and continue the war with Great Britain. The great blunder of Congress had been in delaying so long to take the steps which were finally taken. Had the revenues on imports been increased at the time Gallatin desired, internal taxation might have been avoided altogether; for enough money would have flowed into the treasury from importations to discharge the ordinary obligations of the government, and the funds required for extraordinary expenditure could have been easily and advantageously borrowed. But by delaying to tax, the credit of the government was prostrated, and then there was no escape from increased taxation. In truth, Congress did not awaken to the seriousness of the situation until public credit was ruined, and until no money could be borrowed to carry on the government. The path which Congress ought to have followed was as clear to Gallatin and some others, in the beginning, as it was to every one in the end. By refusing to take it, lamentable consequences occurred, for which there was no excuse nor palliation.

## CHAPTER III.

## THE GOVERNMENT, AND THE CIRCULATING MEDIUM.

THE charter of the first United-States bank expired in 1811, and the second one began business in February, 1817. During the interval the money in circulation was poor enough. The notes issued by the first national bank had been willingly received everywhere, for their redemption was never questioned. In its vaults there always lay more specie than was needed to redeem every note.<sup>1</sup> Never before had the country been favored with a paper money so nearly perfect. Moreover, by refusing to receive the bills of other banking institutions of questioned solvency, the national bank exercised a healthful influence in restraining their issues.

When the charter of the national bank expired, its notes were withdrawn, and the notes of State banks were put into the chasm. These institutions rapidly multiplied, for great profits were expected from the business. During 1811 and the two succeeding years, one hundred and twenty banks were chartered, and went into operation.<sup>2</sup> Gov. Snyder of Pennsylvania had the courage to veto a bill authorizing a wholesale creation of banks in

<sup>1</sup> Crawford's Report on Banks and the Currency, Feb. 24, 1820, 3 Finance, p. 494. It never issued notes for a smaller sum than ten dollars.

<sup>2</sup> Gouge's Short History of Paper Money and Banking, chap. 7.

that State.<sup>1</sup> They were scattered everywhere, and added nearly thirty million dollars of banking-capital to the amount previously existing. But there was no addition of real capital. The truth of this statement will appear when their mode of raising capital is described. The first instalment was paid; and then the banks were organized, and discounted stock-notes to meet the subsequent payments. Of course, the practice was soon discovered. Issued in this manner, the entire body of circulating medium, except the issues of the New-England banks, began to depreciate. So far below par did their value fall, that confidence was unsettled in their future convertibility.

This increase of bank-notes occurred on the eve of war, during the earlier period of which, exports were almost annihilated, and also the foreign and coasting trade. As only a small portion of this manufactured capital could be loaned to mercantile enterprises, considerable sums were invested in government loans. Finding a good demand in this quarter, bank-notes rapidly multiplied.<sup>2</sup>

<sup>1</sup> A writer who reviewed Gov. Snyder's veto, in a pamphlet entitled *Remarks on Paper Money and the Bank Paper of the United States*, regarded the document "as a solemn protest—accompanied with clear, cogent, and convincing reasons—against a growing evil, which, if not arrested, will destroy public confidence, and will consume the wealth of the opulent with the pittance of the poor."—p. 30.

<sup>2</sup> Gallatin's *Considerations on the Currency and Banking System*, Writings, vol. iii. pp. 284–287. Arrangements were made with several banks for accommodations at reduced interest, provided the borrowers would continue in circulation an amount in notes similar to their loans; "and it is a well accredited fact, that considerable premiums were allowed to paymasters by the banks during the war, on condition that they would circulate their small notes in payment to the troops" (CURTIUS to secretary of the treasury, on a National Currency, p. 14). The same authority, writing

The eastern banks, however, did not subscribe so liberally to them, because the war in that section was unpopular; but elsewhere they subscribed very freely, and made discounts to individuals who did likewise: while others withdrew their deposits, and loaned them to the government. These transactions greatly swelled the volume of paper money.<sup>1</sup>

The indiscretion of the banks — chiefly in Baltimore, Philadelphia, and New York — in thus expanding their issues was inexcusable. They knew that their specie was leaving them, and that vast quantities were going to Great Britain. The New-England banks were liable to

in 1816, says, "Many of these institutions have doubled their capitals, and most others have made fifty per cent since the declaration of war, exclusive of their speculations in the public funds" (Ibid., p. 11).

<sup>1</sup> N. Am. Rev., vol. xxxii. p. 46. Senator Kent of Maryland delivered a speech before the United-States Senate in 1834, in which he stated some interesting facts concerning the ill effects of this "experiment upon the currency." He was in Congress during the war, and "well remembered the ruinous consequences" that resulted from the experiment. The paper money issued by the banks "continued to depreciate until it became so worthless, that the members of Congress refused to receive it in payment of their *per-diem* allowance. They were paid in treasury-notes, and drafts on northern banks, where specie payments had never been discontinued, and those were sold for a premium, which was pocketed by the members, whilst their constituents were obliged to receive the depreciated paper money in payment for their hard earnings. What the people individually lost, and what the government lost during the five years that this first experiment was going on, and which embraced the whole period of the late war, I will not attempt to estimate. We know that there is enough of the trash of that day now remaining in the public treasury, called unavailable funds, which, with the interest added to it, would be sufficient to complete the Chesapeake and Ohio Canal, the Baltimore and Ohio Railroad, and the Delaware Breakwater, — three great and magnificent public works intimately connected with the future prosperity of the country." — *Incidents in Life of Jacob Barker*, p. 99.



a penalty of two per cent a month for the non-payment of their notes. This regulation produced a good effect; for their notes maintained their full value, even when those of other sections were depreciated. The difference between the New-England prices of commodities, stocks, and foreign bills of exchange, and those of Pennsylvania, was the measure of the depreciation of the currency of the latter, and as "our bank-notes," says Gouge, writing from Philadelphia, "were redeemable on demand, the most profitable remittance which could be made to New England, in exchange for her commodities, was specie."<sup>1</sup>

The banks in the Southern and Middle States having been emptied of their specie, the capture of Washington, in August, 1814, caused them to fail. Those at the capital fell into the hands of the enemy, but there was scarcely any thing in them. Already were the banks on the brink of ruin. Those at Baltimore soon gave way. The wave spread northward. The six at Philadelphia fell next, whereupon their several presidents gravely and gladly advertised that coin could be no longer paid. Heavy importations of foreign goods into eastern ports, they affirmed, had drawn their specie thither; and the drain had been increased by an unusually large trade in British bills of exchange, which had caused heavy sums to be exported from the United States.<sup>2</sup> The following

<sup>1</sup> Short History, p. 254.

<sup>2</sup> "From the location of the armies at that period, a very great proportion of the bank circulation taken by the government was issued in New York, which found its way to the eastern banks. Great balances thus accrued in their favor against the banks in the city of New York, which, in their turn, became creditors of more southern institutions. The liqui-

day the New-York banks suspended; but those in New England withstood the pressure.<sup>1</sup> One of them, which had speculated too largely in the paper of the government, it was feared, would succumb; but, relieved by rivals, its credit was saved.

The broken banks,<sup>2</sup> though refusing to redeem their notes, professed their desire and ability to do so at an early day. The commercial world, however, was not seriously shaken; for the legal money, gold and silver, remained the standard of value. That standard the banks could not change: indeed, the influence of its

datation of these balances was necessary to all who held them, and, of course, demanded. This occasioned a general movement of specie to the North, which continued till every bank south of New England was exhausted" (Letter to Secretary of Treasury on Commerce and Currency of United States, by Aristides, p. 6). For full account of specie movements, see chapter on National Bank, p. 153.

<sup>1</sup> So did the Bank of Nashville until August, 1815, "the sturdy history of whose directors, amid such general knavery, is not less praiseworthy than it is remarkable." — *History of Banks*, Boston, 1837, p. 59.

<sup>2</sup> "In 1813, when gold and silver were paid on demand, the currency of the United States, without including specie in the vaults, was about seventy millions, of which sixty-two millions were in bank-notes. Such was its rapid increase, after the withdrawing of the salutary check, — the liability to pay gold and silver, — that in 1815, only two years afterwards, it amounted to one hundred and ten millions." This is the statement of William B. Lawrence (*N. Am. Rev.*, April, 1831, Reprint, p. 26), who followed Crawford's estimate, which was adopted by the Committee of Ways and Means, as the basis of their calculations (see Crawford's Report on the Bank of the United States and other Banks, and the Currency, Feb. 24, 1820, 16 Cong., first session, — the ablest and most elaborate paper that Crawford ever prepared). Gallatin, eleven years afterward, made a lower estimate, which is probably more accurate. He affirmed that the capital of the State banks existing in 1790 amounted to \$2,000,000, and that in January, 1811, just before the charter of the United-States bank expired, there were eighty-eight State banks, possessing a capital of \$42,610,000

fixedness was never more extensive or salutary. Bills of doubtful credit were compared with it, and their value was ascertained. They became a merchantable commodity, and were often purchased with legal coin. They were daily sold at a discount, which was regularly announced in the newspapers: they were even sold at public auction, the purchaser paying in legal money.

The prices of merchandise and exchange corresponded to the depreciation. Tea, coffee, and every article of commerce, had only one value; though that was expressed differently if payment were made in bank-notes instead of coin. When the depreciation was twenty per cent, eighty dollars of silver would buy all that could be procured for one hundred dollars in the depreciated paper. If the seller could not at first perceive this, the buyer went to a broker with his silver, and bought bank-bills at the discount price. The note which purported to be one dollar was, in fact, but eighty cents; and this was universally known, so that no deception was practised in paying or receiving it.

Nevertheless, the inconvenience of such a circulating medium was very annoying. Except in the New-England

(*Writings*, vol. iii. p. 286). From various data, and guided partly by analogy and partly by the respective dividends of the banks, Gallatin constructed the following table:—

		Capital.	Notes in Circulation.	Specie.
Jan. 1, 1811.	Bank of the United States,	\$10,000,000	\$5,400,000	\$5,800,000
	88 State banks . . . . .	42,610,601	22,700,000	9,600,000
	Total . . . . .	\$52,610,601	\$28,100,000	\$15,400,000
1815.	208 State banks . . . . .	82,259,590	45,500,000	17,000,000
1816.	246 State banks . . . . .	89,822,422	68,000,000	19,000,000



States, scarcely two towns had the same money. "In the Southern and Western States the depreciation in some instances exceeded even twenty-five per cent. Not only was an accurate knowledge of the nominal exchange of the day necessary, before making purchases at a distant place, but a traveller proceeding from the south or west towards the north or east, if he were so fortunate as to have his money received at all, could not adjust his reckoning at an inn till an abstruse calculation was made of the discount to which his bank-notes were to be subjected, or till he had recourse to the interposition of a broker."<sup>1</sup>

Great as was the inconvenience of using such a circulating medium, no serious losses occurred. Unfortunately, the secretary of the treasury believed that depreciated bills should be received without discount, not in payment of loans only, but also in payment of duties and other taxes.<sup>2</sup> Where the government could not get legal money, it accepted discredited paper. It hoisted the sign on its custom-houses, and in the offices of its tax-gatherers, "Bills of broken banks received here." Is it singular that bank-notes then multiplied? The crier was sent into the cities to shout at the corners of the streets, and in the ears of the money-changers, "Depreciated paper borrowed by the government at par value!" Thenceforth, a premium was set on depreciation; and cities, seeking their interest, vied with each other in debasing their local currency.

<sup>1</sup> N. Am. Rev., vol. xxxii. p. 546.

<sup>2</sup> The action of the secretary of the treasury in receiving bank-notes for loans and taxes, during the war of 1812, was severely condemned by the Dem. Rev., vol. ii. p. 121.



One ill effect of this action of the government was to draw importations to the port where paper money possessed the least value; namely, Baltimore. The mercantile wealth of the country anchored at its wharves, and its streets resounded with the din of business which rightfully belonged to other cities. "The practical favoritism of the government," says Ingersoll, "transferred the warehouses of the Boston and Charleston merchants to the wharves of Baltimore; and though every individual could protect himself, and did protect himself, against the depreciation of paper, yet there was no redress against the injustice of the government. Different rates of duties were virtually exacted in different parts of the Union. Till treasury-notes fell, Boston paid the highest. This in itself was a wrong. But, further, the amount of business in Boston was naturally diminished; for merchant-vessels sailed for the port where the costs were least. Thus the possession of solid capital, which should have put Boston on vantage ground, operated so far to its injury; and the very circumstance which should have attracted trade, exerted only the attraction of repulsion."

It was at this time that Dallas drew the following picture of the monetary affairs of the government: "The recent exportations of specie have considerably diminished the fund of gold and silver coin; and another considerable portion of that fund has been drawn by the timid and the wary, from the use of the community, into the private coffers of individuals. On the other hand, the multiplication of banks in the several States has so increased the quantity of paper currency, that it would be difficult to calculate its amount, and still more difficult to ascertain

its value, with reference to the capital on which it has been issued. But the benefit of even this paper currency is in a great measure lost; as the suspension of payments in specie, at most of the banks, has suddenly broken the chain of accommodation that previously extended the credit and the circulation of the notes which were emitted in one State into every State in the Union. It may in general be affirmed, therefore, that there exists at this time no adequate circulating medium common to the citizens of the United States. The moneyed transactions of private life are at a stand, and the fiscal operations of the government labor with extreme inconvenience."<sup>1</sup> The picture may be completed by adding that the country was flooded with bank-note counterfeits; and these heightened the distrust of the people in the entire mass of the bank circulation.

The sudden determination of the banks to suspend specie payments, including those which held the public deposits, deprived the government of the use of its gold and silver, without assent on the part of the treasury. The equally sudden determination of the banks everywhere to refuse credit and circulation to the notes issued in other States, deprived the government of the only means existing for transferring its funds from the places where they lay inactive to the places where they were wanted, for the payment of dividends on the funded debt, and the discharge of treasury-notes. That the bank-credits of the government would soon be exhausted in Boston, New York, Philadelphia, and in other places where were the

<sup>1</sup> Dallas's Letter to Chairman Com. of Ways and Means, Oct. 17, 1814,  
<sup>2</sup> Finance, p. 866.

principal loan-offices for the payment of the public debt, was inevitable. Nor could the government meet its engagements in those cities, unless the public creditors would receive drafts on banks in other States, or would subscribe the amount of their claims to a public loan, or would accept payment in treasury-notes.

With this unfavorable prospect before him, Dallas applied to the banks for assistance. It was not unreasonable to hope, that, having caused the existing embarrassment, they would cheerfully attempt to relieve the treasury. Every previous request for aid from them had been denied. Nevertheless, he requested those which had acted as agents of the treasury to assist the government with the means to discharge the treasury-notes, and to pay the dividends due on the public debt for a quarter at the loan-offices of their respective States. A great portion, both of the treasury notes and loans, belonged to the banks; and to that extent a protracted credit only was required. The balance of the demand he expected would be paid, if at all, in the notes of the respective banks. To secure and satisfy such advances, he proposed that the banks should be admitted on reasonable terms to subscribe to a loan of three million dollars, or should receive treasury-notes, or bank-notes, or drafts on banks in other States. If any bank preferred to accommodate the government with a temporary loan bearing legal interest, it would be accepted. From these sources Dallas hoped to get relief, but failed, as enough banks would not cooperate to render the plan successful.<sup>1</sup> He did succeed, however, in getting the money needed to pay the most

<sup>1</sup> Dallas's Letter on Loans, Dec. 5, 1814.

pressing obligations by selling a considerable quantity of government stock.

Near the close of 1814 the treasury was so low, that the committee of claims seriously thought of recommending that all claims whose validity should be determined by Congress should be paid in public stock or treasury-notes. Dallas happily checked their inchoate action by suggesting that "it might be injurious to the public credit."<sup>1</sup>

When the banks suspended specie payments in the summer of 1814, the treasury-notes were poorly fitted to fill the place occupied by the bank circulation.<sup>2</sup> What, therefore, could the government do for a circulating medium? Of gold and silver, the greater portion had been exported. The notes of the State banks were not redeemable, and passed in many places at varying rates of discount. If the government had restricted the payment of the revenue to constitutional money, gold and silver, or to treasury-notes, or to bank-notes payable on demand in coin, the step would have operated as a denial of the means for paying the duties and other taxes at the very crisis when money was most wanted. Nor could any such limitation be imposed with respect to the loans required. A subscription in coin could not be expected. A subscription in treasury-notes could not yield any active aid for general purposes; and, consequently, a subscription in the local currencies of the several States was the chief resource for procuring supplies, and for discharging the

<sup>1</sup> Letter to Com. of Claims, Dec. 19, 1814, 2 Finance, p. 883.

<sup>2</sup> Dallas's Letter to Com. of Ways and Means, Dec. 2, 1814, 2 Finance, p. 877.



public engagements. "Under a sense, therefore," says Dallas, "of the necessity which seems for a time to have reconciled the whole nation to the suspension of payments in coin, the treasury continued to receive bank-notes in satisfaction of every public claim and demand; and Congress, after a session of six months, adjourned on the 3d of March, 1815, without intimating any objection, or making any provision upon the subject."<sup>1</sup> Nevertheless, the government should have received the bank circulation at its true value, as merchants did in the beginning. Had this position been taken and maintained by Dallas's predecessors, the embarrassments of the treasury would not have been so severe. A different path having been chosen, Dallas could not do otherwise than walk therein, for a time at least, until he could find a better way.

By the rule he first established, the treasury received and paid in the notes of banks circulating at par at the respective places of receiving and paying. For a time, the circulation of such notes was indicated by the banks employed as the depositories of the public revenue by crediting them as cash in the accounts of the United-States treasurer; but after a short period the principal banks refused to do this, except the notes they had respectively issued. What notes circulated at par could then be ascertained only by inquiry. Few notes, except those of the local banks, continued to circulate at par value; and such as did were received by the banks for safe keeping, as a special deposit, constituting a discredited fund on which the treasurer could occasionally draw.

<sup>1</sup> Letter to Chairman of Com. on National Currency, March 19, 1816, 3 Finance, p. 116.

The operation of this measure was severe in many of the collection districts, particularly in the States where the banks which were preparing to resume specie payments had so reduced the issues of their paper as to render the quantity circulating insufficient for the demand. But the secretary of the treasury could not wisely change the rule. If notes not circulating at par had been received in one district, a similar practice must have been observed in every other. The inevitable consequence of such a practice would have been the payment of taxes everywhere in the most depreciated paper; and the notes thus received never could have been employed to discharge the demands on the treasury, even at the places of receiving them. The revenue would have accumulated only to be wasted, while the expedient of substituting treasury-notes to meet the public engagements would have led to an enormous increase of the national debt.

Another serious consequence followed the discredited paper circulation. The secretary of the treasury was compelled to augment the amount of the national debt, both funded and floating, by issues of treasury-notes, to meet the public engagements at places where he could not command the local currency. Throughout the Eastern States the secretary failed to get enough local currency to meet the local demand. The banks of those States, fettered by their charters, could not follow the example of banks elsewhere in suspending coin payments: consequently their issues of notes were very limited, and the circulating medium required was supplied, principally by treasury-notes, and partly by the notes of the banks

of New York. Under these circumstances the revenue in the eastern section of the Union was almost entirely collected in treasury-notes. Lesser difficulties, springing from similar causes, occurred in some of the Southern States, where the accruing revenue was less than the demands caused by the arrearages of war and the current expenditures.

The condition of the circulating medium required the secretary of the treasury to perform a very difficult task. The amount of revenue collected varied much in different places; and not infrequently it happened that the debts were greatest where the government had the least money to satisfy them. So far as practicable, warrants were paid at the places where services were rendered, or supplies were furnished. But if the treasury possessed no funds at such places, the differences of exchange caused no little difficulty in locating the payment of warrants in an equitable, impartial, and satisfactory manner. Gradually the difficulty passed away, except in New England, where it remained for a long time to vex the secretary of the treasury. It was fiscally impossible to pay all the demands on the treasury at one place; and every holder of a warrant was desirous of receiving payment where the medium was of the highest current value.

The condition of the circulating medium seriously affected the management of the business of the treasury in another way. The banks employed as depositories of the public funds were necessarily increased, notwithstanding the injurious consequences to the government. As soon as the differences in the current value of bank-notes were introduced, and particularly when one bank



refused to credit as cash a deposit of the notes of another, the secretary was obliged, either to take the hazard of accumulating masses of revenue in the hands of individual collectors and receivers, or to recognize as places of deposit banks established in the districts which were not affected by the course of the exchanges. The latter measure was adopted, instructions were issued to the collectors and receivers to act accordingly, and the number of banks thus employed by the government swelled to ninety-four.

Not only were the difficulties of the treasury department enhanced by multiplying the places of deposit, but there was greater complexity in keeping the accounts arising from the various kinds of notes in circulation, on some of which minute calculations must be made. It was necessary to keep four accounts with each bank, — an account of cash, which meant, in the absence of coin, the local currency; an account of special deposits of bank-notes, which were notes issued by other banks than the depository; an account of special deposits of treasury-notes bearing interest; and a fourth account of deposits of small treasury-notes not bearing interest.

Such were some of the difficulties encountered by the government from the suspension of specie payments by the banks. Dallas made every effort which his bold and vigorous mind could suggest to relieve the treasury from its embarrassments; but he was obliged to tell Congress, at the close of 1816, that his successive attempts had not been effectual. There was no magic in a mere treasury instruction to the collectors of the revenue which could, by its own virtue, charm gold and silver into circulation.



The people did not possess a metallic medium ; nor could they be expected to procure it, unaided by the banks. They, too timid or too interested, declined every overture to co-operate in re-instating the lawful money. Even Congress remained passive. The power of coercing the banks was limited to the rejection of their notes in paying taxes, and to the exclusion of their agency in the custody and distribution of the revenue. Even if more power had been exercised, a coin currency would not have been created ; while the people would have suffered, and a hazard been put on all the money due to the government. Until, therefore, a substitute could be provided, it was useless and impolitic to insist on payment of the revenues in a medium which the people did not possess, and could not procure.<sup>1</sup>

One mode of relieving the treasury somewhat was by employing treasury-notes. Issued by the government, and bearing interest, and receivable in payment of debts and taxes, they were evidently more valuable than bank-notes. But bank-machinery gave an impulse and direction to its issues which could not be imparted, by the forms of the treasury or any merely official institution, to the paper of the government. In the operations of a bank, too, the facilities of bank-credits supplied the place, in a very important degree, of the issues of notes ; so that a bank-loan, so Dallas declared, of thirty million dollars, would probably require no greater issue than six million dollars of notes. On the contrary, the sum raised by an issue of treasury-notes must be actually sent in that form into the market, through the various channels of credit

<sup>1</sup> Annual Treasury Report, December, 1816.

and demand. Treasury-notes, however, could partly supply the place of a circulating medium; and, so far as possible, Dallas and Congress were desirous of thus employing them.<sup>1</sup>

The State banks, after suspending specie payments, might have furnished far more assistance than they did to the government and individuals. Had they given credit and circulation to the notes of each other throughout the United States, or had they been willing to adopt the fiscal views of Dallas, a total dependence on those institutions, however impolitic in the abstract, would have been practically safe and beneficial. But by continuing to limit their circulation to the city, town, or State where it was issued, their notes totally failed to fulfil the purpose of a circulating medium; and the receipt of them in payment of duties converted the public revenue, which was destined for general uses at home and abroad, into a local fund, which often was not wanted where it existed, and was wanted where it could not be had. This difficulty might have been obviated somewhat, after a time, by establishing a rate of exchange on the transfer of the revenue from the places of collection and deposit to the places of demand and employment; but Congress did not heed Dallas's recommendation.<sup>2</sup>

The reader may ask, Why did not Dallas compel debtors to pay the government in coin,—the only kind of money recognized by the constitution? Had he done so,

<sup>1</sup> Dallas's Letters to Chairman of Com. of Ways and Means, Oct. 17, 1814, 2 Finance, p. 866, and Feb. 20, 1815, *Ibid.*, p. 910.

<sup>2</sup> Dallas's Letter, Feb. 20, 1815.

the Eastern States would not have suffered; for their circulating medium would have remained, and retained its value, whatever policy might have been adopted by the banks of other states. But the effect of such a requirement in other sections of the Union, unless their local banks had observed it in their ordinary business, would have been to deprive the people of their only means of paying the public taxes and of maintaining trade. The secretary, therefore, during the year 1815, acquiesced in the arrangements then existing, though determined to demand coin payments at the earliest practicable moment.

Dallas told Congress, very soon after accepting office, that the true way to put the people in a condition to pay the money prescribed by the constitution was to establish a national bank. This, he declared, was the only effective remedy that could be applied. Beside accomplishing that object, it would constitute a safe depository for the public treasure, and a constant auxiliary to the public credit. He proposed that a national bank should be incorporated for the term of twenty years, with a capital of fifty million dollars, two-fifths of which should be subscribed by the government, and the remainder by corporations, companies, and individuals. He further proposed that the concern should loan thirty million dollars to the United States at six per cent interest, at times and in sums mutually convenient.<sup>1</sup> A bill constituting it was immediately introduced into the House. When recommended to the committee who reported it, the question was warmly discussed of the expediency of issuing forty-

<sup>1</sup> Dallas's Letter, Oct. 17, 1814.

four million dollars of treasury-notes which should be receivable in subscriptions to the bank. Dallas's opinion was asked. He believed that it would be extremely difficult, if not impracticable, to get so many treasury-notes into circulation with or without depreciation. This opinion was founded on several reasons: 1. If the subscriptions to the bank became an object of speculation, the treasury-notes would probably be purchased at the treasury, and loan offices, and never pass into circulation at all; 2. Whatever portion of the treasury-notes might pass into circulation would be speedily withdrawn by the speculators in the subscription to the bank, after steps had been taken to depreciate their value. The only difference between the notes which had been issued, and those proposed, was in their subscribable quality; but this was not believed to be great enough to secure the circulation of so great an amount.<sup>1</sup>

The State banks were opposed to the creation of a national bank. The interests of the two were diametrically opposed. A memorial was sent to both Houses from five of the banks in the State of New York, containing their reasons for opposing the creation of such an institution. The memorialists declared that the present time was most inauspicious for creating a national bank, and that, so far from aiding the fiscal operations of the government, it would, in their opinion, tend to embarrass, even more than the adverse circumstances of the times had already done, all public as well as private credit. The memorialists "firmly" believed that the proposed capital was too large, that the six million dollars of specie

<sup>1</sup> Dallas's Letter to Lowndes, Nov. 27, 1814, 2 Finance, p. 872.



needed could not be obtained by any inducements which could be held out, and that a less sum would not afford proper security to the public; that, even if six millions could be procured, the payment of the notes in specie could only be continued for a short period, under the present circumstances of the country; that if, by the exercise of the power proposed to be lodged in the President of the United States, the notes were not paid in specie, they would infallibly depreciate; that, if they did, no existing bank could possibly take them without the greatest injury to their stockholders; and that, if the notes were not taken by the banks throughout the country, they would not serve as a general medium of circulation.

There was another class who opposed the chartering of the bank,—the speculators in exchange,—whose influence was very powerful. The amount of exchanges effected annually at this time was computed at sixty million dollars. The dealers in exchange were reaping a rich harvest from the depreciated money in circulation. It was not surprising, therefore, to find them opposing an institution, which, if successful, would relieve the community of the enormous tax paid to them, and utterly destroy their business.<sup>1</sup>

Notwithstanding the opposition to the measure, a charter was granted in January, 1815; but President Madison vetoed it, not for lack of constitutionality,—a point which he regarded as settled by the courts,—but for other reasons that may be briefly given. The amount of the government stock which might be subscribed would

<sup>1</sup> Clarke and Hall's Leg. and Doc. Hist. of Bank of U. S., p. 743.

not, he believed, be sufficient to produce in favor of the public credit any considerable or lasting increase of its market-price. On the other hand, the stock might be occasionally depressed by the bank itself, if it should carry into market the proportion of capital it was permitted to hold, consisting of public stock, in order to procure specie, which it might desire to obtain, even at the sacrifice of a portion of its capital. Subscribers were also to be allowed to pay for their subscriptions in part in treasury-notes. But the President declared in his veto that the actual issue of these notes nearly equalled at present, and would soon exceed, the amount to be subscribed to the bank. The direct effect of this operation would be simply to convert fifteen million dollars of treasury-notes into the same amount of six-per-cent stock, with the collateral effect of promoting an additional demand for treasury-notes beyond what might otherwise be negotiable. Furthermore, the bank, if constituted as proposed, could not be relied on, during the war, to provide a circulating medium, nor to furnish loans, nor anticipations of the revenue.<sup>1</sup>

Though the first charter failed through defects which the President would not sanction, another was passed the next session which he signed without hesitation. In the mean time, Dallas sought to induce the State banks to resume specie payments, but without success. In New England the desire of the banks to return to them was very strong: indeed, they professed to pay gold and silver. For a considerable period they had issued only a very few notes of their own. The wants of the people were sup-

<sup>1</sup> Communicated to the Senate, Jan. 30, 1815, 2 Finance, p. 891.

plied chiefly with treasury-notes. The revenue there was almost wholly collected in them; and prior to purchasing them at a considerable discount,<sup>1</sup> importers were placed at a very serious disadvantage with importers elsewhere. In other sections of the country, however, the banks were less inclined to resume specie payments, although each bank professed to be, if the others were ready.

Dallas's proposition to them was to begin the payment of coin in small sums on the 1st of October, 1816; but they deemed such a resumption of specie payments inexpedient. They desired to defer the time for resuming until the 1st of July the following year. He strongly deprecated the delay. In his report to the House on the state of the finances, made only a few days before resigning office, he set forth in the strongest light many reasons why the State banks should resume the next January, when the national bank was to begin paying in coin, or on the 20th of the following month, when coin payments were to be exacted by the government for duties and other taxes.<sup>2</sup>

The banks possessed considerable specie; for early in 1814<sup>3</sup> they wrote to Dallas, suggesting "the propriety of his recommending to Congress" the enactment of a law making foreign gold coins a legal tender. Unless this quality were given to them, heavy losses were apprehended. So the former laws, making them a legal tender,

<sup>1</sup> Dallas's Letter to Chairman of Com. on National Currency, Nov. 27, 1814.

<sup>2</sup> Sept. 30, 1816, 3 Finance, p. 129.

<sup>3</sup> March 4, 2 Finance, p. 837.

were revived, and continued in part until 1827.<sup>1</sup> To prevent coin from going abroad, Dallas was in favor of prohibiting its exportation for a limited time; but Congress maintained a different view.

Before concluding this chapter, the fact may be added that some persons who had received treasury-notes from the government in payment of contracts at a period when they were worth less than par, afterward sought to recover the difference; but Congress objected strongly to paying it. A committee of that body declared they "were treated by the parties as the common currency of the country, and a substitution for the current coin to such only as were willing to accept them at par. They were what they purported to be, and what the law declared they should be, — available to the holder to the full extent of their nominal amount; if no other way, by converting them into certificates of funded debt." Moreover, it might be justly maintained, that, as creditors expected to be paid in these notes, the prices of things purchased were advanced enough to cover the depreciation. Nevertheless, in several cases, Congress did vote to pay claims of this nature.<sup>2</sup>

<sup>1</sup> Act, April 29, 1816, 14 Cong., first session, chap. 139. Act, March 3, 1819, 15 Cong., second session, chap. 97. Act, March 3, 1821, 16 Cong., second session, chap. 53. Act, March 3, 1823, 17 Cong., second session, chap. 50.

<sup>2</sup> Report No. 5, Dec. 22, 1836, 24 Cong., second session.



## CHAPTER IV.

## EFFECT OF THE WAR ON MANUFACTURES.

FOR several years before the war numerous outrages were inflicted by the subjects of Great Britain on American commerce, the growth of which had excited their jealousy. The English ministry shared the same unhealthy sentiment. To drive our commerce from the seas was the chief end of Canning's unfeeling, selfish policy. It was thoroughly English, but it was successful. The steps of retaliation to which we were slowly and hesitatingly led, eventually had the effect which Canning so ardently desired; for when the war was over, and the smoke had cleared from the ocean, American ships could no longer be seen sailing peacefully on its great bosom, nor did they ever return in former numbers. It was like the blow that Nebuchadnezzar struck at the heart of Tyrian commerce, — costly, indeed, to Great Britain, but very effective; and those who do not look back to the events of that day, to ascertain the prime cause of the decay of American shipping, build their arguments upon a wrong foundation.

If the English ministry succeeded in accomplishing their design, they did not intend to aid in cultivating a fairer tree, whose branches in due time should cast their shadow over Great Britain itself. It was, however, during

this troubled period, that American manufactures were securely rooted. The methods which Great Britain employed to expel American commerce from the seas, were far more effectual barriers to the introduction of foreign manufactures than any set up by the American government. Just in proportion as the embargo laws, and other kindred measures, were effective in destroying American shipping, did American manufactures strike deep root, and rankly grow.

Until this period home manufactures had not been very important, nor had they offered serious competition to foreigners. Something had been done in manufacturing cotton goods, a few woollens had been made, some iron, and several other industries had been begun; but all were in a nascent state. Many manufactures were the fruit of hand-labor.

The embargo laws changed all this. When the supply from foreign countries was cut off, the dependence and helplessness of the people became manifest. What was to be done for blankets to clothe the army, and supply the Indians? The secretary of war proposed that the non-intercourse law should be suspended in regard to them, so that they could be imported.<sup>1</sup> It was during this period, says Dallas, "that the importance of domestic manufactures became conspicuous to the nation, and made a lasting impression on the mind of every statesman and of every patriot. The weapons and munitions of war, the necessaries of clothing, and the comforts of living, were at first but scantily provided. The American market seemed for a while to be converted into a scene of gam-

<sup>1</sup> *A. M. Labor versus British Free Trade*, Phil., 1855, p. 4.

bling and extortion; and it was not the least of the evils generated by the unequal state of the supply and demand, that an illicit traffic with the enemy, by land and by water, was corruptly and systematically prosecuted from the commencement to the termination of hostilities.”<sup>1</sup>

Nevertheless, the American people were at first very slow in starting new manufacturing enterprises. For several years previous to the war the conduct of the government had been very weak and vacillating. There seemed to be a lack of governing power. Truly the government existed in form, but had clearly manifested great weakness. The country had seen a small cabal, having the confidence of none outside themselves, control legislation, and dictate appointments. The President had acted like a helpless ship with disabled rudder. It was distressing to witness the scene. Canning looked on, and smiled. Had our government been strong, he never would have been permitted to insult it for the long period he did, without at least a mighty cry, and determined effort to resent the injury. This state of things

<sup>1</sup> Report on Tariff of Duties on Imports, Feb. 13, 1816, 3 Finance, p. 85. “The amount of loss and positive suffering which resulted from this unfortunate state of affairs (war of 1812) can be but faintly conceived by the generation now on the stage. History, indeed, gives us some idea of it; but one must talk with aged men and women who passed through that gloomy and distressing scene, if he would know how wretched may be the condition of a people engaged in conflict with a powerful foe, yet without the means of producing clothing for their armies, or of producing within themselves the essential and varied material of war” (BIGELOW’S *Tariff Policy*, pp. 61, 62). Edward Everett said in a speech delivered in New York in 1831, that competent judges had estimated the enhanced price of clothing, during the war of 1812, at a larger sum than all the duties paid on cloth since that time (*Ibid.*, p. 62, *note*).

was any thing but favorable to American manufacturing. Hearing a gentleman, remarked a writer at that time, complain for the want of wire, I said, "You have capital enough: why do you want it? Establish a manufactory, and make it for yourself." He replied, "I would have done so a considerable time since, and I am willing to do so now; but the measures of government are so uncertain, and no disposition exists in Congress to defend such establishments, that I rather choose to suffer present evils than attempt to remedy them by an exertion that might be attended with more serious consequences." He added, "This is a general rule among the people. They make no calculation, as the British manufacturer does, on the protection of the government, and therefore attempt nothing that they are not morally certain will immediately be so reproductive as to enable them fairly to compete with the old establishments of Europe."<sup>1</sup> The prejudice which had been so general, respecting the inferiority of American manufactures, was decreasing, although enough existed to embarrass somewhat the home producer in selling his product.<sup>2</sup>

Notwithstanding the attitude of the government, individuals did engage in new enterprises. Having once begun in earnest, the fever rapidly spread. Various manufactures were successfully produced.<sup>3</sup> A great improvement was made in woollen cloth, and in many kinds of tools. Said Niles, writing near the close of 1812, "The progress of manufactures is astonishing. The world has no parallel for the population of the United

<sup>1</sup> 2 Niles, p. 8.<sup>2</sup> 1 Ibid., p. 462.<sup>3</sup> Ibid., pp. 390, 406.



States, nor can it furnish any<sup>o</sup> for the increase of our fabrications.”<sup>1</sup>

Cobbett, on the other side of the Atlantic, watching our progress, exclaims, “See what has been, only by the short operation of the embargo and non-intercourse act, done in America! To such an extent have the cloth and the cotton manufactories grown up there, that I have been credibly informed, that, during last year, the cards for carding wool and cotton, shipped for America from the port of Liverpool, have exceeded in amount the cloths shipped at the same port from the counties of Somerset and Gloucester. . . . We have here before us the seeds of a great event, — nothing less than the complete and absolute independence of America upon English manufactures.”<sup>2</sup>

In 1810 there were ten thousand bales of cotton manufactured in the United States. Five years afterward, ninety thousand bales were used, which were manufactured into eighty-one million yards of cloth, costing an average of thirty cents per yard. These facts reveal at once the rapid growth of this branch of manufacture. The iron fabricated was sufficient, within three thousand tons, to supply the whole consumption of the country. Woollen manufactures, though not quite so far advanced, were prosecuted with equal vigor. The home supply of white and red lead, and shot, was sufficient. Earthen wares were made in immense quantities, “and with an elegance beginning to rival the workmanship of Europe.”

<sup>1</sup> 3 Niles, p. 189. See 6 *Ibid.*, p. 173, for list of manufactures made at that time.

<sup>2</sup> 1 *Ibid.*, p. 164.

In the manufacture of glass it was affirmed that our workmen had rivalled those of England. Except some fine articles not often wanted, we were supplied altogether by home manufacturers.<sup>1</sup>

Those who consumed these products were obliged to pay dearly for them. Importers and merchants having stocks on hand when the embargo laws went into effect, did not hesitate to ask enormous prices of buyers. Manufacturers followed the example. There was no little complaining about these things. Even Niles, whose devotion to the cause of American manufactures has been rarely paralleled and never surpassed, writes to them in the "Register,"<sup>2</sup> "Your profits at present are exceedingly great. Your works are more productive than the mines of Mexico." But he especially warns them against deteriorating the quality of their products: "I have feared that your eagerness to make money was a little like the conduct of the farmer, who, having a goose that laid a golden egg each day, would have grasped the whole at once by killing the goose, by which he lost all. From personal observation and general remark, it appears that the character of many of your goods is depreciating, though others have and deserve the highest price. Be content, then," he advises them, "with a present business 'better than coining.' Get as much as you can for your goods, but let them be of the best quality; then you may command a preference over foreign manufactures. And if, with this advantage, and the cost of freight,

<sup>1</sup> Report of Com. on Manuf., Feb. 13, 1816, 9 Niles, p. 447. Todd's Speech, February, 1824, 18 Cong., first session.

<sup>2</sup> Vol. vi. p. 217.

charges, and duties on goods imported, you cannot meet your great rival, you ought to quit the business. If you deserve the encouragement, the double duties may be continued, some time after peace (come when it will), for your protection; but they will not be exacted of the people merely for your profit, nor is it right they should be."

During the year 1813 the price of cotton advanced, and that of twist diminished; and the profits of the cotton manufacturer greatly declined. The manufacturers of woollen cloths continued to realize large profit when their business was managed with economy. But their time of trial soon came, and the prices of their fabrics rapidly fell. A writer who was describing these things, but friendly to the manufacturers, says, "Have not their prices been exorbitant? and, instead of a moderate profit of one to two dollars per yard, have they not made from four to eight dollars? There are good reasons for supposing so."<sup>1</sup>

Doubtless the manufacturers thought, that, as their future was uncertain, they would improve the present, and make all they could before the evil time came. Anyhow, their large profits created no little dissatisfaction; and when, in 1816, they sought to have their interests protected by legislation, they then learned what the people thought of their conduct. Nothing made the fires of opposition to them burn so brightly as the recollection of the high prices they had charged for their goods.<sup>2</sup>

<sup>1</sup> 8 Niles, p. 234.

<sup>2</sup> "Foreign cloths were sold in 1811, before the war, at eight, nine, and ten dollars per yard. Merino washed wool was then about seventy-five



They could indeed reply, We did simply like others who had control of the market. Did not the merchants set the example in selling their merchandise? This answer did not wholly satisfy the people.<sup>1</sup> They could not easily forget, or cease to grumble, about the prices they had been obliged to pay during the gloomy period of war and non-intercourse with Great Britain.

Thus, in consequence of interrupting the foreign trade of the United States by embargo and non-intercourse laws, and by war, a great and salutary stimulus was given to-

cents per pound. A hundred and fifty thousand pounds of imported merino wool were sold in the course of that year, by Messrs. Warder & Son of Philadelphia, to Messrs. Dupont of Wilmington, and others, for from seventy to eighty cents. On the general establishment of the woollen manufactories in the close of 1813, merino wool was sold at two dollars and a half to three dollars per pound, as appears by the Philadelphia price current; which also shows, that, on the 28th of March, 1814, the price was from three to four dollars, at which it continued stationary for the remainder of the year. The highest price of American superfine broadcloth, at that period, averaged from twelve to fourteen dollars. Foreign cloth was generally sold at a higher rate, and, but for the supplies from the American manufactories, would probably have been sold for twenty dollars. Thus, while the farmer (who advanced the raw material from four to five hundred per cent) and the importer (who raised his prices from fifty to two hundred per cent on the various articles he had for sale) accuse the manufacturer of extortion, the latter did not advance his fabrics more than fifty per cent on the prices current before the war, notwithstanding the extravagant rise in the price of the raw material, and likewise in wages, owing to the extraordinary demand for workmen, and notwithstanding the enormous expense of the manufacturing establishments, and the advance in the price of almost every article of food and dress."—17 NILES, p. 88.

<sup>1</sup> Mr. Gold, a member of the House, remarked during the discussion of the tariff-bill in April, 1816, "It is further objected that our manufacturers will extort extravagant prices; and the prices during the last year are referred to in support of the objection. Is this charge against manufacturers just? Does not every member of this committee know that the charge



ward establishing manufactures on our own soil. What progress had been made, viewed in English eyes, may be learned from a parliamentary report setting forth the effects of the orders in council: "It clearly appears that those manufactures have been greatly promoted by the interruption of intercourse with this country, and that, unless that intercourse be speedily restored, the United States will be able to manufacture for their own consumption."<sup>1</sup> The more sanguine at home saw in the near future the realization of the fear which now darkly overcast the prospects of the English manufacturer. The voice of the prophet was heard in many places prophesying the early release of the people from dependence on British manufacturers for supplies of clothing, iron and steel wares, and other things. The prophecies were to be fulfilled, but not in the way and time so confidently prophesied. Not until a gigantic struggle had been waged, in which millions of money were lost, and every artifice was exhausted, did the foreign manufacturer retire from the field. Seven years sufficed to win the political inde-

applies equally against all classes during the late war? Did not the merchant who had cloths on hand profit equally by the times? Did he not impose a hundred per cent profit on his peace importation? Was not the settled order of things unhinged by the war, and did not all classes exact the most extravagant prices? If the manufacture of cottons were a mystery confined to a few, there might be foundation for the objection; but the fact is, the manufacture is simple, machine-makers greatly multiplied, and the manufacture is now actually spread over more than half of the United States. It began in the East, has spread to the West, and has now actually passed the mountains. Instead of concert to raise prices, competition and the spirit of understanding prevail to such an extent, that sales are often made without profit."—*Annals*, 14 Cong., first session, p. 1325.

<sup>1</sup> 4 Niles, p. 105.

pendence of the United States; but nearly a century must pass before their industrial independence could be secured.

Before the introduction of the restrictive system, the duties on imports had been collected without much expense or loss; nor had many frauds been perpetrated on the government. Their successful collection, however, so Dallas affirmed, "depended more upon the integrity of the commercial community than upon the rigor of the laws, or an expensive vigilance at the custom-house." But when the duties on imports were doubled, and the prices of foreign merchandise suddenly rose to a high figure, the spirit of illicit commerce was kindled, and rapidly spread. More energetic measures became necessary to protect the fair trader, and to secure the revenue. Previously the average annual expense of collection had been about four per cent, excluding the fees paid by individuals, which were estimated at one per cent more. While the war raged, the revenues declined; but the expense of collection did not decline in proportion. The losses from smuggling, practised on the frontier, were enormous; and the laws were totally inadequate to suppress it. Soon after Dallas entered the treasury department, he suggested additional legislation, which proved a more effective barrier to the illegal introduction of goods into the country.<sup>1</sup>

<sup>1</sup> Dallas's Report on Rev. Laws, Dec. 7, 1814, 2 Finance, p. 881. Tariff of Duties on Imports, Feb. 13, 1816, 3 Ibid., p. 85. Act, March 3, 1815, 13 Cong., third session, chap. 94.

## CHAPTER V.

ADMINISTRATION OF THE TREASURY, FROM GALLATIN  
TO CRAWFORD.

WHEN Gallatin went abroad to negotiate a treaty, the business of the treasury was intrusted to Mr. Jones, the secretary of the navy; the President confidently expecting, that, in due time, Gallatin would return, and resume the duties of his office. Negotiations proceeded slowly; and Jones acted as secretary of the treasury from May, 1813, until January the following year. His fitness for the post may be illustrated by the following incident: Soon after undertaking the duties of the treasury department, he made a report regarding the duties on prize goods, in which he overruled the opinion of Gallatin, Hamilton, and Adam Smith, on the same subject. He quoted a singular authority to sustain him, an entirely new light in the financial world, — Hudibras. The treasury had always maintained the position that the duties on imports were paid by consumers; but Mr. Jones declared that “the maxim derives more weight from the felicity of argument and commanding character of the great author of the ‘Wealth of Nations’ than from the universality of the principle. It is undoubtedly true in the abstract; but my experience as a merchant has taught

me to know the practical value of a maxim derived from an author of a lighter cast, —

“‘What is the worth of any thing  
But so much money as ’twill bring?’”

The unpretending prose of former secretaries of the treasury had ill prepared the country for lyrical economy; and Congress could not help laughing, notwithstanding the gravity of the situation. Though his incompetency was known in the beginning, and every report furnished fresh evidence of it, he was kept at the head of the treasury office for more than nine months during a very critical period of the war.

Jones made two reports to Congress, — one at the opening of the special session in June, 1813, and the other six months afterward. In the former report he briefly explained the efforts of the treasury department to borrow money; estimated the probable needs of the government, and what revenues might be expected from imports; and added a few very feeble recommendations about issuing treasury-notes, and the laying of internal taxes. These, he declared, were necessary for obtaining loans, and especially on reasonable terms. Although he showed, as he thought, the necessity for making “a speedy and effectual provision” for the public service, yet, as “the mode and the extent to which this provision should be carried had been previously suggested from that department to Congress, and had received the consideration of that body,” this most important matter was glibly passed over without further comment, or a single recommendation.



The annual report submitted to Congress in December, 1813, was like the first. Of the estimated expenditure of \$45,350,000, Jones proposed that \$29,350,000 should be raised by loans, and the remainder by taxation. After giving an estimate of the probable revenue, he was bold enough to remark, "It will rest with Congress to decide whether it is necessary that new and additional revenues should now be established." The reader of the foregoing chapters relating to the war, will perceive without much difficulty, we imagine, the necessity for wider and deeper taxation long before the time of making this report; and he will wonder why the head of the treasury did not comprehend the situation of the government. A treasury nearly empty, and loans obtained only at a heavy discount, — these patent facts ought to have impressed Mr. Jones with the clearest conviction of the need of increasing taxation speedily, and to have aroused him to giving forth no uncertain sound to Congress. The poverty of his recommendations painfully showed the poverty of his mind, and at a time, too, when a strong and courageous spirit was needed to direct the finances of the government.

The position of Gallatin was one of the reasons for keeping Jones at the head of the treasury. Had Gallatin resigned before going abroad, the President would have put the treasury department into stronger hands than those of the secretary of the navy. When Gallatin found that a long period must pass before making peace, and that he could not be confirmed in his present office unless he resigned the other, his resignation was sent, and accepted by the President. He had long been thinking of

Alexander J. Dallas, to whom he was strongly attached, and whose abilities he appreciated, but his confirmation would have been impossible at that time, had the President appointed him. Both the Pennsylvania senators were opposed to Dallas. They contemptuously declared they would not vote to place a mere Philadelphia lawyer, who had taken the side of the Federalists before the war, in the treasury. The office was offered to Langdon Cheves, speaker of the House; but he declined it. In February, 1814, Pinkney having resigned the office of attorney-general, Dallas was offered the choice of that or the treasuryship; but he declined both. His appointment, therefore, was delayed several months.

In the mean time, George W. Campbell, a senator from Tennessee, was offered the position, and he accepted it. He had previously served in the House as chairman of the Committee of Ways and Means, and had thus acquired some knowledge of national finance. On the 26th of September he sent a report on the state of the finances to the House; and this document proved very clearly that he was not the man for the emergency. Jones was too ignorant, and Campbell too weak, to grasp boldly questions of finance. Like timid mariners, they kept near the shore, when safety required that they should venture forth into deep water. Campbell faintly suggested an increase of taxation; but the report contained no strong recommendations, such as the time imperatively demanded. Notwithstanding the numerous and grave consequences from suspending specie payments, all that Campbell could say was, that this act "by many of the most considerable banks in the United States, and of

those most important in the money operations of the treasury, has produced, and will continue to cause, difficulties and embarrassments in those operations. The circulating medium of the country, which has consisted principally of bank-notes, is placed upon a new and uncertain footing; and those difficulties and embarrassments will extend, in a greater or less degree, into the pecuniary operations of the citizens in general. The powers of Congress, so far as they extend, will be required to be exerted in providing a remedy for these evils, and in placing, if practicable, the currency of the country on a more uniform, certain, and stable footing." These empty remarks on a question so vitally important at that time to the government and to the people, are painful proof of Campbell's timidity, and unfitness to administer the finances.

During his brief stay in the treasury office, he did not become its master. To the chief clerk of the treasury department was intrusted very largely the negotiation of loans; and, after a short attempt to conduct the business of the office, it was necessary to relieve Campbell by appointing Samuel H. Smith acting secretary. Thus the period of inefficient management under Jones was prolonged during Campbell's administration. There was no improvement; but, rather, the situation grew worse. He resigned the 28th of September, two days after sending his report to the House.

"Tell Dr. Madison," said Senator Lacock of Pennsylvania to the President's private secretary, "that we are now willing to submit to his Philadelphia lawyer for head of the treasury. The public patient is so very sick, that we must swallow any thing the doctor prescribes, how-



ever nauseous the bolus.”<sup>1</sup> “His intrepidity and firmness,” says Ingersoll, “gave fresh impulse to the war for the few months that it lasted after his coming,—from October, 1814, till February, 1815,—and rescued the treasury from the disgraceful inanition it had fallen to during the prior twenty-eight months of hostilities. Arms, revenues, national power and resource, were just elevated to the proper war-standard, when it ended—never till then.”

Dallas had previously served the government in a legal capacity at Philadelphia, and had been active in politics, though not always in perfect accord with the members of his party. “Perhaps newspaper abuse, as he was an active and very able partisan, was the chief means of his notoriety.” He had never acquired any special knowledge of finance, and was profuse in his own expenditures. His vigorous measures surprised and disconcerted many in his own party. Macon, chairman of the Committee of Ways and Means, wished to know if his experience in public affairs, and that of others who had long served in Congress, was to be set aside by a mere Philadelphia lawyer, whose powdered hair, old-fashioned but ostentatious dress, and graceful manners, were regarded as faults, rather than merits, in many observing eyes. He did not have that reverence for Congress shown by Gallatin, who had been a member of that body previous to his becoming secretary of the treasury. The occasion, also, was favorable for making urgent recommendations. The sack of the capitol by the enemy, joined to a long series of

<sup>1</sup> Dallas was confirmed Oct. 6, 1814, and was succeeded by William H. Crawford Oct. 22, 1816.



unfortunate events, emboldened him to advocate powerful measures without fear of encountering much opposition. Increased taxation, and a national bank, were the principal measures which he constantly forced on the attention of Congress. He enjoyed the friendship of such men as Stephen Girard, David Parish, and John Jacob Astor; and it was doubtless through their advice that he laid down with so much confidence the track on which he desired Congress to move.

Though short, his administration had been eminently successful. When he left the treasury, the day for resuming specie payments was very near,<sup>1</sup>—an object for which he had persistently and effectually labored. A national bank had been chartered, which in due time aided the government in many ways. Its credit had been revived, and steps taken for reducing the public indebtedness. His successful and brilliant management of the finances is in striking contrast with the painful and humiliating inefficiency shown by his two immediate predecessors.<sup>2</sup>

<sup>1</sup> Feb. 20, 1817.    <sup>2</sup> Ingersoll's Events of War of 1812, p. 252 et seq

## BOOK III.

FROM THE CLOSE OF THE WAR IN 1815, TO 1860.



## CHAPTER I.

### PAYMENT OF THE FUNDED DEBT.

THE reimbursement of the debt was continued, notwithstanding the war with Great Britain. In 1812 \$2,135,000 were paid, but for several succeeding years only \$1,570,000 were annually needed. The commissioners of the sinking-fund, after paying the interest on the debt, were required to apply the residue of the annual appropriation of \$8,000,000 to the purchase of stocks, if their price fell below par. Gallatin feared, that, in consequence of this legal requirement, there would be greater difficulty in obtaining loans than if no such requirement existed.<sup>1</sup> The dreaded event did not happen: consequently the secretary was free to apply the larger portion of the money borrowed toward paying other indebtedness. Nearly \$3,000,000 of the old six-per-cent and deferred stocks were exchanged for new stock, under a law that was approved July 6, 1812. Several small purchases were made at different times; and the amount remaining unpaid at the end of September, 1815, was \$39,135,484.96. In the mean time a new debt had been contracted, of large proportions. The amount funded at the date last mentioned was \$63,144,972.50: the floating debt was \$17,-

<sup>1</sup> Report of Com. of Ways and Means, Jan. 20, 1812, 2 Finance, p. 523.



355,101, which, except \$1,150,000 of temporary loans, consisted of treasury-notes. Thus the total debt contracted since the beginning of the war was \$80,500,073.50.<sup>1</sup> On the 1st of October, 1816, fourteen kinds of stock, bearing seven different rates of interest, were held by the owners of \$34,000,000 of the debt.<sup>2</sup> The funded debt at this time stood thus:—

Old funded debt . . . . .	\$37,494,267.01
New funded debt . . . . .	71,201,551.28
Temporary loan . . . . .	50,000.00
	<hr/>
	\$108,745,818.29 <sup>3</sup>

When the treasury-notes were first issued, it was supposed they would be paid within the time designated. But they were not; and the amount remaining unpaid grew larger until the 20th of February, 1815. At that date there were issued, or ordered, \$18,452,800.<sup>4</sup> These were a charge on the sinking-fund, and, while they remained so, were a serious burden. With a charge of more than twice the amount of the fund thrown upon it, beside other charges in the way of interest and payments on the new loans, the gravity of the situation is apparent. Dallas was desirous of emancipating the sinking-fund from the treasury-note debt. This could be done, either by paying them from the current revenues, or by funding

<sup>1</sup> Elliot's Funding-System, p. 635.

<sup>2</sup> Lowndes's Report on the Public Debt, Jan. 14, 1817, 3 Finance, p. 165.

<sup>3</sup> Another item of public debt was the Mississippi stock, which was created when the "Yazoo claims," so called, were settled, in August, 1816. The amount of this stock was \$4,282,036.92. It bore no interest, however, and was reimbursable from the proceeds of public lands in the territory. See Dallas's Report, Sept. 20, 1816.

<sup>4</sup> Elliot, p. 621.

them. He proposed, therefore, that provision should be made for paying or funding these notes in order to relieve the sinking-fund of that charge. He also proposed that the sinking-fund should be applied, first, to the interest and reimbursement of the old six-per-cent stock; and, secondly, to the payment of the principal and interest of the temporary loans obtained under the Act of March, 1812; and then to the payment of the interest accruing on the stock debt created since the war. Finally, he proposed that the annual surplus of the sinking-fund, after satisfying these ends, should be applied to the purchase of the stock created since the war, and that the interest on the stock thus purchased should be added, from time to time, to that appropriation, for the purpose of making new purchases.<sup>1</sup> Congress was willing to fund the notes, but went no farther that session toward crystallizing the views of Dallas into legal form.<sup>2</sup>

The treasury-notes were rapidly absorbed for subscriptions to the debt, taxes, duties, and in other ways. At the close of 1817, only \$635,963 were outstanding: <sup>3</sup> \$36,133,794 had been issued since 1812.

The heavy addition to the public debt required an enlargement of the sinking-fund. Dallas's recommendation of an increase of \$2,000,000, though not at first heeded by Congress, caused no injury to the public interests, because it was essential to discharge all the floating indebtedness before preparing to reduce the funded debt. Notwithstanding the increase of revenues, the expenses of

<sup>1</sup> Letter to Com. of Ways and Means, Feb. 24, 1815, 2 Finance, p. 916.

<sup>2</sup> Act, March 3, 1815, 13 Cong., third session, chap. 87.

<sup>3</sup> Elliot, p. 711.

the government continued heavy; and the mass of floating obligations, including the treasury-notes, could not be discharged for several months after the war closed. In 1817 the floating debt was decreased to such a small figure, that the secretary of the treasury could proceed toward discharging the funded indebtedness.

Early in 1817<sup>1</sup> the funding-measures were repealed; and Congress enacted, that from the proceeds of duties on merchandise imported, and on the tonnage of vessels, and from internal duties, and from the sales of Western lands, \$10,000,000 should be annually appropriated to the sinking-fund, and be applied by the commissioners thereof to the payment of the interest, and the reimbursement or purchase, of the public debt. As the revenues for the year 1817 were very large, \$9,000,000 in addition were appropriated to the same purpose; and the secretary of the treasury was authorized to pay the sinking-fund commissioners \$4,000,000 more, if he should deem it expedient to do so. Any future annual surplus exceeding \$2,000,000 was appropriated in the same manner. The Act further provided, that, whenever there should be a surplus in the sinking-fund beyond the amount of interest and principal due and payable during any year, the commissioners were authorized, with the approval of the President, to purchase the debt at the market-price, provided it did not exceed the following rates: for the three-per-cent stocks, not over sixty-five per cent; for the six-per-cent stocks, not exceeding par; and, for the seven-per-cent stocks, no higher rate, in proportion, than for the six-per-cent ones. Another change was made in the

<sup>1</sup> Act, March 3, 14 Cong., second session, chap. 87.



former funding Act, respecting the purchase of certificates of indebtedness. These were to be cancelled and destroyed as soon as purchased, and no interest was to be considered as accruing on them. With no addition to the debt, it would be discharged in fourteen years if the law were executed.

Crawford recommended Congress to grant the sinking-fund commissioners authority to buy the public stocks at those rates which, in their judgment, would be for the interest of the nation, rather than to suffer the funds that could not be applied in reducing the debt to accumulate. At the rates fixed by Congress, none could be purchased; and only those portions could be redeemed which became due. Crawford showed the probable saving of such a measure. On the other hand, the interest that would be paid, if continuing until all the stocks matured, would constitute a large sum. The wisdom of adopting Crawford's recommendation seemed apparent. The commissioners, he remarked, need not be required to purchase unless they saw fit: consequently the enactment of such a measure would not greatly raise the price of stocks. He added, that, should such an authority be granted to the commissioners of the sinking-fund, it was probable that the different species of stock would advance in price above their present current value, but as the authority would be permissive, not imposing the obligation to purchase, the surplus of the sinking-fund could be more beneficially employed in purchasing the public debt, so Crawford thought, than by remaining idle in the treasury until the year 1825. If that surplus could be invested early in each year, at the present prices of the different



species of stock, it would produce a saving to the nation of not less than \$4,000,000 between the first days of January, 1820 and 1825, at which latter date the first war-loans of 1812 could be discharged. But Congress declined to invest the sinking-fund commissioners with the needed authority.<sup>1</sup>

Crawford then proposed that stocks which would be redeemable in 1825 and 1826, amounting to \$24,000,000, bearing six and seven per cent interest, should be exchanged for five-per-cent stocks, redeemable in 1831, 1832, and 1833. A proposal to the extent of renewing one-half that amount was embodied in a law;<sup>2</sup> but the secretary failed to induce the holders of these stocks to make an exchange, save to a very small amount. The increased demand for capital to prosecute commercial enterprises had the usual effect of raising the rate of interest for money, and defeated the success of the measure. This event was not foreseen at the time the measure was proposed.<sup>3</sup> As there was a balance in the treasury on the 1st of January, 1824, amounting nearly to \$10,000,000, which would be shortly increased, Crawford recommended that authority be granted to the commissioners of the sinking-fund to purchase the seven-per-cent stock, during the year, at rates consistent with the public interest. This recommendation was favorably received.<sup>4</sup>

<sup>1</sup> Annual Report, December, 1817.

<sup>2</sup> Act, April 20, 1822, 17 Cong., first session, chap. 28. Crawford's Annual Report, December, 1823.

<sup>3</sup> Annual Reports, 1821, 1822. Ways and Means Report, Dec. 31, 1821. 17 Cong., first session.

<sup>4</sup> Act, Jan. 22, 1824, 18 Cong., first session, chap. 16. The balance of the seven-per-cent stock at that time was \$8,606,490.27. It was all paid, except a trifling sum, during the year.

At the beginning of 1826, \$19,000,000 of the recent war-debt were redeemable. It was probable that not more than \$7,000,000 could be discharged that year. The year following, \$13,000,000 were redeemable, while it was equally probable that no larger sum could be paid than in the preceding year. There were, therefore, \$18,000,000 which could not be paid in those two years. In 1828 the amount of principal redeemable would probably not exceed the ability of the treasury to discharge. The two succeeding years, no portion of the public debt was redeemable, and in 1831 less than \$19,000. "Policy would seem to suggest," said Crawford, "with a view both to the convenience of the government, and the advantage of the community, that the excess of debt which cannot be discharged in 1826 and 1827 should be thrown, in equal portions, upon those years in which nothing is payable. For the present, however, it may be sufficient to confine such an arrangement to the excess of the year 1826. From the state of the money-market, and the high credit of the government, no doubt is entertained that the \$12,000,000 required to provide for the excess of debt on the 1st of January, 1826, may be borrowed at five per cent, reimbursable in 1829 and 1830." He desired that authority be granted for effecting this arrangement if it were approved.<sup>1</sup>

The same object, he remarked, might be accomplished by an exchange of the stock redeemable the 1st of January, 1826, for a five-per-cent stock, redeemable in 1829 and 1830. Crawford favored a loan. A proposal for a loan, he added truly, invited competition from all the

<sup>1</sup> Annual Report, December, 1824.

moneyed capitalists, including the Bank of the United States; while an exchange of stock confined the demand for new stock to the holders of the old, who constituted, not only a small portion of the capitalists, but a portion who were interested in preventing the exchange. Moreover, the experience of the government during the last two years justified the preference for a loan. The experiment for exchanging \$24,000,000, in 1822, had proved a failure; and another, tried the following year, for exchanging \$15,000,000 of the six-per-cent stock of 1813,<sup>1</sup> had resulted in the exchange of only \$3,308,307.45.

Had Crawford's recommendation been adopted, for disposing of the excess of debt redeemable in 1826 and 1827, the amount redeemable in each year would have been the following:—

In 1825	. . .	\$7,654,570.93, at 6 per cent.
1826	. . .	7,002,356.62, at 6 per cent.
1827	. . .	7,001,437.63, at 6 per cent.
1828	. . .	9,490,099.10, at 6 per cent.
1829	. . .	6,000,000.00, proposed to be at 5 per cent.
1830	. . .	6,000,000 00, proposed to be at 5 per cent.
1831	. . .	6,018,901.59, proposed to be at 5 per cent.
1832	. . .	6,018,900.72. of which the sum of \$1,018,900.72 was to be at 5 per cent, and \$5,000,000 at 4½ per cent.
1833	. . .	6,673,055.31 at 4½ per cent, except \$18,901.59 at 5 per cent.
1834	. . .	1,654,153.73, at 4½ per cent.
1835	. . .	4,735,296.30, at 5 per cent.

This included all the public debt of the United States, except \$7,000,000 of five-per-cent stock, subscribed to

<sup>1</sup> Act, May 26, 1824, 18 Cong., first session, chap. 192.

the capital of the Bank of the United States, and \$13,296,-231.45 of three per cents, both of which were payable at the pleasure of the government.

An exchange of \$12,000,000 was proposed by Congress, —the sum that could not be redeemed in 1826. If the exchange could not be made, then a loan by the government was to be effected. But, instead of fixing the rate of interest at five per cent, Congress cut the rate down to four and a half per cent.<sup>1</sup> The consequence was, that only \$1,585,138.88 were exchanged, and none whatever was subscribed to the loan offered. The reason why the loan failed was the low rate of interest offered, coupled with the short period of redemption, and the activity in commerce and manufactures demanding an increase of capital.

One-third of the amount due in the years 1825, 1826, and 1827, was held by Europeans; and the inquiry was raised, whether, if this portion of the debt were paid, the remitting of the sum due abroad would not ruinously sweep away the remainder of our metallic money.<sup>2</sup> The author who put forth this inquiry, “though a decided adversary to the existence of a great public debt,” nevertheless believed that the nation could more judiciously employ its surplus in making internal improvements than in liquidating the national debt.

During Crawford’s administration of eight years, debt-paying had proceeded in a hopeful manner. On the 1st

<sup>1</sup> Act, March 3, 1825, 18 Cong., second session, chap. 100. Ways and Means Report, Jan. 12, 1825, 5 Finance, p. 174.

<sup>2</sup> Laws’s Considerations, etc., for liquidating, within the Next Four Years, the Six-per-cent Stocks of the U. S., Wash., 1826, p. 9.



of January, 1817, the whole debt of the United States was \$123,491,965.16; of which sum, \$115,257,805.48 were funded, bearing an average interest of 5.56½ per cent per annum. On the 1st of January, eight years afterward, the debt was reduced to \$86,045,003.18, bearing an average interest of 5.23¼ per cent, — a reduction of \$37,446,961.98 of principal, and of .33¼ per cent in the average rate of interest.

In the last year of Crawford's administration, \$5,000,000 were borrowed at four and a half per cent to pay awards under the Florida treaty.<sup>1</sup> The money was borrowed from the United-States bank. A similar sum was borrowed from the bank to reimburse, in part, a war-loan of 1812, which became due that year, amounting to \$10,331,000. For the second loan, proposals were asked. The amount offered, beside that of the bank, was \$2,554,585.37, at rates varying between par and four and a half per cent premium. The proposal of the bank was for the whole amount at par. Although the individual offers were far more favorable, seemingly, than the offer of the bank, yet considering that the government was the proprietor of one-fifth of the capital, and that the sum thus offered would otherwise be unemployed, the offer of the bank was regarded as "decidedly the most advantageous for the government, being equal to an individual offer at four and three-quarters per cent premium."<sup>2</sup>

When Rush succeeded Crawford in 1824, he desired authority to contract new loans at five per cent interest, to pay the portions which could not be reimbursed of the

<sup>1</sup> Act, May 24, 1824, 18 Cong., first session, chap. 140.

<sup>2</sup> Annual Report, December, 1824.

loans of 1812 that were approaching maturity. But the Committee of Ways and Means, of which McLane was chairman, affirmed that the time was unfavorable for exchanging stock, or procuring new loans on reasonable terms. Moreover, the secretary supposed that the existing six-per-cent loans could not be paid in part,—a view not sustained by the law authorizing them, which expressly reserved the right of paying the whole or any part of them whenever they became reimbursable. The opinion entertained by the committee was, that by adopting the plan of partial payments, and applying the surplus quarterly, in conformity with the sinking-fund law of 1817, the debt would be more speedily and economically reimbursed, and more equally and beneficially distributed through different years; better meeting the convenience of the government, lessening the expenditure on account of interest, and effectually preventing the accumulation of money in the treasury.<sup>1</sup> That portion of the debt, therefore, which could not be paid when it matured, was continued at the former rate of six per cent. The policy of Congress was wasteful, and without any justification whatever. Had a large portion of the war-debt of 1812 been refunded when Crawford desired, at five per cent interest, at which rate the money could have been easily obtained, a considerable saving would have been effected.

During the first seven years after the sinking-fund law of 1817 went into operation, the whole sum required to be paid to the commissioners, in order to comply fully with its terms, had not been paid within \$3,000,000. During

<sup>1</sup> Report, Feb. 6, 1826, 5 Finance, p. 285.

the next four years, however, while Rush was at the head of the treasury, this deficiency was paid, beside the regular annual payments of \$10,000,000. Interest was always scrupulously paid when the quarter came around. It may be added, too, that there was not always a sufficient amount of debt redeemable every year to which the whole amount of the annual sinking-fund could be applied. During the eleven years the Act had been in operation, from the 1st of January, 1817, \$146,669,773.48 had been paid, of which \$88,834,108.66 were for principal, and the remainder for interest.

The flourishing condition of the revenues, and the prompt payment of the interest of the debt, produced a marked effect on the price of the public stocks. They rose above par, notwithstanding their early maturity. This fact operated directly to increase the value of the three per cents, and to create the belief that they, too, would be finally redeemed at par. The price of these rose to eighty-five; nor were they easily purchased even at that figure. In 1829 the price was eighty-seven and a half, and the most of them were finally redeemed at their par value. Nine years previously Crawford had expressed the opinion that the sales of the Western lands were pledged for their reimbursement, and that at some period these should be applied for their redemption.<sup>1</sup> In 1830 the commissioners of the sinking-fund were authorized to purchase the three per cents at the best rates possible.<sup>2</sup> Par was paid for nearly the whole amount. In 1832 the remainder was paid, amounting to \$13,296,705.76,

<sup>1</sup> May 3, 1820, Elliot, p. 775.

<sup>2</sup> Act, April 24, 1830, 21 Cong., first session, chap. 78.

and leaving at the end of that year only \$7,001,698.83 of funded debt. It may be questioned whether long before, the government, seeing its ability to discharge all its indebtedness, ought not to have given notice that it would ultimately pay the full amount of this portion of the debt. The money had been advanced in the beginning; and the government had used it as profitably as any other funds, and was under an equally strong obligation to pay it.<sup>1</sup> Had the bank-shares been sold, as the secretary of the treasury desired, the avails would have been more than sufficient to extinguish the entire debt. The government, therefore, was really released from the burden of indebtedness. The bank-shares had been paid: they yielded a rich return,—far more than the interest on the small amount of debt remaining unpaid. With what pleasure did McLane, in his report at the close of 1832, remark, that “the debt may, therefore, be considered as substantially extinguished after the 1st of January next, which is earlier than was looked for, under the most prosperous and economical administration of our affairs that could have been anticipated.”

In October, 1834, notice was given by the secretary of the treasury that the whole of the debt unredeemed after the 1st of January would cease to bear interest, and would be promptly paid after that date.<sup>2</sup> The duties

<sup>1</sup> Setting aside the obligation, this portion of the debt might have been redeemed more economically, had Congress not forbidden the purchase of them above sixty-five per cent in 1817. If no law of the kind had been enacted, the three per cents could have been purchased for much less than their face.

<sup>2</sup> The estimated amount of the debt not assumed by the government in 1790, including the foreign as well as the domestic debt of the States, was \$8,331,028.32 (ELLIOT'S *Funding-System*, p. 130). This sum was never paid.



of the sinking-fund commission ceased; and the secretary of the treasury was intrusted with the power of paying the small amount of stock, and interest thereon, whenever payment should be demanded. No Act was passed abolishing the office of the sinking-fund commissioners; but in 1830 the secretary of the treasury was required to pay over all the surplus in the treasury above five million dollars to the treasurers of the States. This requirement was a practical abolition of the duties of the sinking-fund commissioners. Nor for many years was there any legislation with respect to disposing of the balance of the debt, which might never be presented for payment. The amount was very small.

After making the final payment, Woodbury wrote that "the government had redeemed, whether at home or abroad, the entire debt of both the Revolution and the late war; paid the purchase-money for Florida and Louisiana; and, with a most scrupulous sense of moral as well as political obligation, administered in various ways to the wants, and atoned for many of the losses, of those who had perilled life and fortune in the struggle for independence in which the debt arose. Its redemption had been effected without imposing heavy burdens upon the people, or leaving their treasury empty, trade languishing, and industry paralyzed, but, on the contrary, with almost every great interest of society flourishing, with taxes reduced, a surplus of money on hand, valuable stocks and extensive lands still owned by the government, and with such various other financial resources at command as to give to our country, in this respect, a very enviable superiority."<sup>1</sup>

<sup>1</sup> Annual Report, December, 1834.

## CHAPTER II.

## THE SECOND UNITED-STATES BANK, AND THE PUBLIC DEPOSITS.

THE second United-States bank finally received a very large number of the votes of both Houses of Congress, and also the cordial assent of the Executive. Nearly all doubt concerning the constitutionality of such an institution had passed away; and Congress, in establishing it, was heartily sustained by the people. Every one had experienced the ill effects of a depreciated money; and many saw no way of curing them, save through a national bank. Great things, therefore, were expected of it. How it fulfilled the public expectations, we shall proceed to show.

The object of establishing the bank was mainly threefold. First, specie payments had been suspended, which it was expected the bank would restore. Secondly, as the paper money then in circulation was not redeemable in specie, it passed at varying rates of discount, which subjected the government and individuals to varying losses. This difficulty it was expected the bank would remove, beside providing the country with a monetary medium that should possess equal value everywhere, which was not the case with the bank-notes then in use.

The capital of the bank was thirty-five million dollars, one-fifth of which was to be subscribed by the government, paying therefor in coin, or in five-per-cent stock. Other subscriptions were payable, one-fourth in coin, and the remainder in coin, or stock of the United States. There were to be twenty-five directors, and five of them were to be appointed by the President. The bank was to keep the public deposits,<sup>1</sup> and to aid the government, without charge, in negotiating its loans. Branches could be established, and notes issued of any denomination not below five dollars, which were to be receivable in all payments to the United States. No other bank outside the District of Columbia was to be established by Congress during the continuance of the charter. "In consideration of the exclusive privileges and benefits conferred," the bank was required to pay five hundred thousand dollars annually for three years after the end of the second year of its existence. The bank was to continue for twenty years.

The task confronting the bank was stupendous. When it began business, on the 7th of January, 1817, the notes of nearly all the banks outside New England were depreciated. Depreciation was greatest in Washington and Baltimore, where they had fallen twenty-two per cent below par. At Philadelphia the depreciation was not so great, yet even there it was from seventeen to eighteen per cent. In New York and Charleston it was from seven to ten per cent; but in the interior of the country, where banks were established, the depreciation exceeded even that at Washington and

<sup>1</sup> For section of charter relating to the deposits, see p. 19.

Baltimore. New England alone was the only section of the Union where bank-notes had escaped the blight of depreciation.

In restoring these depreciated issues to par with gold and silver, the United-States bank could obtain but little assistance from the State banks. Their interests lay on the other side,—in favor of continuing the suspension of specie payments. They were earning large dividends. Never had such profits been acquired in banking before. It was a new and dizzy experience, for a vast number of banks suddenly to emerge into existence, with no genuine capital, and soon fail, and yet, upon the ruin of their failure, continue to do business, and reap greater profits than would have been reaped by conducting their business on a sound basis. To resume specie payments would largely destroy the rich harvest they otherwise would continue to gather. So long as they were permitted to issue their own notes (bearing no interest, and not redeemable), the more they issued, the larger their profits. Moreover, the noble army of debtors bravely (we will not say unselfishly) fought for the banks, because they could see that their indebtedness evaporated in proportion to the inflation of the bank-issues. The stockholders of these institutions, it is true, received their profits in a depreciated money; but, as these were much greater than at any former time, they, too, were opposed to resuming specie payments. Thus those large interests, the banks and the debtor classes, were opposed to every plan suggested for restoring the bank circulation to the legal standard. They admitted the desirability of resuming specie payments; but, whenever an effort was made to



establish a practical plan for doing so, their opposition was quickly shown.<sup>1</sup>

One cause favoring the resumption of specie payments was the restoration of peace; for this event enabled the banks to dispose of their government notes and stocks at good prices.

Another favoring cause was the action of Congress requiring the dues to the government to be paid in legal money. That body resolved, the 30th of April, 1816,<sup>2</sup> that all duties, taxes, and debts payable to the United States after the twentieth day of February, 1817, should be paid in the "legal currency" of the government, or treasury-notes, or those of the Bank of the United States, or of other banks which were paid on demand "in the legal currency of the United States." This Act put an end to the gross injustice which the government had perpetrated on several cities by permitting importers to pay duties in money, varying greatly in value. We shall now endeavor to describe what the United-States bank did toward making this enactment effectual.

As soon as the bank opened, the secretary of the treasury directed importers to lodge their bonds with it. The bank agreed to make the discounts necessary to pay them, or, rather, the notes given for the duties; to secure which the bonds were taken. This agreement on the part of the bank was a very grave undertaking. The bank was to furnish discounts between the interval of the 20th of February, the time fixed for demanding specie or its equivalent, and the 1st of July, the time agreed by the banks for resuming specie payments. During this period

<sup>1</sup> N. Am. Rev., vol. xxxii. p. 547.   <sup>2</sup> 14 Cong., first session, Res. 8.

of four months it was supposed that discounts to the amount of ten million dollars would be required. The reason why the secretary effected the arrangement, was because he feared the State banks would not furnish specie to the importers; and if they did not, nor the United-States bank, the plan of the government must fail. This agreement the bank faithfully kept.<sup>1</sup>

Both the government, and the United-States bank, were desirous of hastening the return of specie payments. The banks had agreed to resume in July, 1817; but neither Crawford, who was secretary of the treasury, nor the Bank of the United States, had much faith that they would fulfil their agreement. The Bank of the United States, therefore, began negotiations with the State banks for the purpose of inducing them to agree to pay specie on the 20th of February, instead of postponing the time until the 1st of July. On the one hand, if the national bank succeeded, the obligation which it had incurred, of discounting all the bonds of importers, would be very much diminished; for, if the State banks paid specie, of course their notes would be readily taken by the government: on the other hand, if they refused to make an arrangement, a large amount of valuable paper for discount purposes would go immediately to the United-States bank, thus losing many of their best customers. Hence all the banks were alike interested in effecting an harmonious arrangement by which the responsibility of the national bank would be reduced, and the patronage of the other banks be retained.

With interests so strongly allied, an arrangement was

<sup>1</sup> 4 Finance, pp. 768, 769.

made; although it may be questioned, whether, if a national bank had not been established, any plan for the restoration of specie payments could have been devised, receiving their assent and co-operation. While no rival institution existed, the State banks controlled the situation; and they knew it, and improved the occasion to the best advantage. They surely would have been much slower in resuming specie payments than they were, had the United-States bank not been founded.

The following plan was finally devised,<sup>1</sup> by which the incorporated banks of New York, Philadelphia, and Richmond, agreed to begin and continue the payment of specie after the 20th of February. On that day the balances in the several banks belonging to the government were to be transferred to the Bank of the United States, and retained by it until the 1st of July, when they were to be paid, with the interest thereon. In liquidating the balances which might be due, the United-States bank agreed to credit them respectively with the amount of their checks on banks which were parties to the agreement.

The payment of the balances which might accumulate against the banks, subsequently to the transfer of the balances previously mentioned from the payment to them of government dues in return for money previously borrowed, were not to be demanded by the Bank of the United States until it and its branches had discounted, for individuals other than those having duties to pay subsequently to the 19th of February, certain specified sums in various places, provided the money was wanted within

<sup>1</sup> Feb. 1, 1817.

sixty days, and by persons who should offer good paper. If the whole amount should not be desired by lenders, then the balance was to be loaned to the banks that should sign the agreement.<sup>1</sup>

During the years 1817 and 1818 the government transferred to the bank at Philadelphia, from the State banks, \$7,472,419.87, and \$3,336,691.67 of special deposits.<sup>2</sup> When the bank began business, eighteen branches were established in different States, which multiplied to twenty-five. But the notes of the national bank were everywhere received in payment of duties and other taxes to the government without reference to the place of issue, and were redeemable in specie at the bank, or any of its offices. In those places where the medium of exchange was composed of inconvertible paper, it was evidently the true policy of the national bank to contract such circulation, either by demanding payment of it in coin, or by refusing to receive it. Unhappily, it pursued another policy, from which it sustained no little inconvenience.

The branches were instructed to give their own notes in preference to those of the State banks, and to deliver drafts on the eastern cities, whenever it could be done, to prevent remitting their own notes. The branch-notes and the drafts, issued in consequence of these instructions, were swept eastward by the operations of trade. A vacuum in the circulation was thus produced, that could only be supplied by the local notes, which were readily received by the officers of the United-States

<sup>1</sup> 4 Finance, p. 769.

<sup>2</sup> Smith's Report, Appendix, Sen. Doc. No. 104, 21 Cong., first session.



bank, and were retained by them as a fund on which interest was charged to the State banks.

By accepting bank-notes which there were good reasons for supposing would not be redeemed, and making them the circulating medium in the section where they were issued, the national bank committed the serious error of increasing the notes of the very banks that were the least worthy of confidence. The reason assigned by the bank was, that this was the only means of inducing the State banks to resume specie payments. But these institutions had no such intention; for, when the United-States bank was afterward obliged to refuse to pay in specie the notes of its branches, many of the State banks began to suspend and evade specie payments.

So long as the notes of each office were payable at all the others, and the office issuing them was not liable exclusively for their redemption, the discounts at those places against which there was a balance of trade became larger in proportion to their indemnity against demands. As the notes of the offices were rapidly carried off, the payment of these discounts was necessarily made in the notes of the local institutions. Thus one inevitable effect of the system was to increase the debts of the State banks to the offices of the Bank of the United States at these places. The demands of the bank were suffered to accumulate. Instead of gradually reducing them by requiring specie in small quantities, which would not have been felt, and which would have relieved the branches of the United-States bank, the reduction was not urged early enough: consequently, when the national bank began to call for specie, its demands were

so considerable, that not only were the local banks exposed, but also the citizens in their vicinity, to a very severe pressure.

When the bank began business, over \$7,000,000 of specie were imported to secure its notes. Those issued by the bank, as well as by the branches, were redeemed, without reference to the place where they were payable, for a considerable period. Drafts were also given without limit on the parent-bank and northern offices, by the western offices, at par, or at a premium merely nominal. As soon as the notes of the southern and western branches were paid or received by the bank, or the northern branches, they were returned to the source whence they were first issued, and once more put into circulation; and thus they were kept in constant activity. The result may be easily divined. The bank and the northern offices were drained of their capital; and on the 20th of July, 1818, eighteen months after opening its doors the institution was obliged to adopt the policy of rapidly curtailing its business. During this period it had had the benefit of immense government deposits. At the time of beginning curtailments, these deposits amounted to \$8,000,000, and in some preceding periods they had been even larger. The curtailments were in the south-western offices, and within eight months amounted to \$6,530,159.49. Yet, after applying this remedy, the bank at Philadelphia, and its New-York and Boston branches, were in a worse condition than before.

Although the western branches were directed to diminish their discounts, they purchased what were called

“race-horse bills”<sup>1</sup> to a greater amount than their curtailments. The bank itself continued, during the whole period, to purchase and collect drafts on the south-western offices, though a very large portion of its capital already lay in those quarters of the Union, and though the great object of the curtailments was to draw funds from those points. Indeed, during this period, the debt due in Kentucky and Ohio, instead of diminishing, was increased more than half a million dollars.

These curtailments were ordered in March, 1819. The bank at that time was in a truly deplorable condition. Vast sums of specie had been imported at large expense, to maintain specie payments; but nearly all was gone. On the 21st of April there were only \$126,745.28, and the bank owed to the city banks of Philadelphia \$79,125.99. “All the resources of the bank,” says Cheves, its president, from whose report many of these facts are drawn, “would not have sustained it, in this course and mode of doing business, another month. Such was the prostrate state of the bank of the nation, which had, only twenty-seven months before, commenced business with an untrammelled active capital of \$28,000,000.”<sup>2</sup>

When Cheves was elected president, in March, 1819, a very different administration was begun. Jones, the for-

<sup>1</sup> These were drafts drawn between the different places where branches existed; so that a bill which fell due at one place was met by the discount of a bill drawn on another place: in other words, this was a mode of making renewals.

<sup>2</sup> Spencer's Report, Nov. 25, 1818, 15 Cong., second session. Clarke and Hall's Doc. Hist. of Bank of U. S., p. 714. For an examination of Spencer's Report, see the Letters of Aegles, which contain “a complete refutation of every charge against the directors of the bank,” Baltimore, 1819.



mer president, whose incapacity for such a position was demonstrated while performing the duties of secretary of the treasury, after Gallatin's retirement, had nearly ruined the bank, and had weakened, if not utterly destroyed, the hopes of many who looked to that institution to restore and preserve a sound circulating medium. It is true that the bank had maintained specie payments at great sacrifice to itself: it had furnished aid to those who wanted money to pay to the government and to others. Yet the condition of the currency was not satisfactory. On the 9th of April the board of directors proposed the following mode of relief:—

1. To continue the curtailments previously ordered.
2. To forbid the officers in the South and West to issue their notes when the exchanges were against them.
3. To collect the balances due by the local banks to the offices.
4. To claim of the government the time necessary to transfer funds from the offices where money was collected to those where it was to be disbursed, as well as like time (until the difficulties of the bank were removed) to transfer funds to meet the notes of offices paid into the bank, or other offices than those where they were payable according to their tenor.
5. To pay debentures in the same way as the duties on which the debentures were secured had been paid.
6. To obtain a European loan of \$2,500,000 for a period not exceeding three years.

“These measures, simple and obvious as they were, lifted the bank, in the short space of seventy days,<sup>1</sup> to a state of safety, and even power, enabled it to cease its curtailments, except at points where it had an excess of cap-

<sup>1</sup> From March 6 to May 17.



ital; to defy attacks upon it; and to sustain other institutions which wanted aid, and were ascertained to be solvent; above all, to establish the soundness of the currency which had just before been deemed so hopeless, and, in a single season of business, to give to every office as much capital as it could advantageously employ.”<sup>1</sup>

As we have seen, the government required every debtor, after the 20th of February, 1817, to pay specie, treasury-notes, or bank-notes redeemable at par in specie. Through the agency of the United-States bank, the other banks in the principal cities were induced to begin specie payments at that time. If the United-States bank had not been chartered, it is difficult to see how the government could have executed its determination: for the State banks certainly would not have resumed before the 1st of July, perhaps not then; and, if they had not, where could debtors have obtained the specie needed to discharge their indebtedness? If bank-notes had not been payable in specie, the government would not have taken them, and the only money which it could have received would have been a very small amount of specie. To suddenly confine the country to this small resource, would have produced the most serious consequences.

One object, therefore, of establishing the national bank, to restore specie payments, was attained. They were maintained, too, so long as the bank existed. To keep true to this end, the bank had made heavy sacrifices. Specie was imported on several occasions at heavy cost. To avoid shipping coin from the United States in 1822, to pay the instalment due that year to the French Gov-

<sup>1</sup> President Cheves's Exposition to the Stockholders, 23 Niles, p. 89.

ernment by the Louisiana treaty, a loan was negotiated in London for the amount required. It could not have been collected here, except at great expense; and the drain would have seriously affected all our business interests.

A writer who was strongly opposed to both of the United-States banks, and who contended that "the people were at work accumulating the means necessary to meet their engagements," and that "the currency would have soon become sound and uniform" in 1791 and in 1817, admitted "that the establishment of the banks may have accelerated the resumption of specie payments in both cases." And this was the very least that could be said by an opponent, concerning the great work of the bank in resuming specie payments.<sup>1</sup>

In order to maintain them, it was necessary for the bank, in 1819, to contract its discounts, and to demand specie from other banks,—a movement which led them to reduce their discounts; and this change of policy, which could not be avoided, caused sore distress throughout the country. During the years 1815 and 1816 the bank circulation increased to \$110,000,000; while in the year 1819 it was reduced \$65,000,000,—a reduction of fifty-nine per cent. This was an enormous contraction, and the evils following it were wide-spread.<sup>2</sup>

<sup>1</sup> Remarks upon the Bank of U. S., p. 25.

<sup>2</sup> On the 9th of December, 1819, Condy Raguett was appointed chairman of a committee, by the Senate of Pennsylvania, to inquire into the causes and extent of the present distress; and on the 29th of January following he made an elaborate report on the subject. The varied forms in which the distress appeared are thus concisely stated:—

"1. Ruinous sacrifices of landed property at sheriff's sales, whereby, in

Another very important function performed by the bank was in equalizing the rates of domestic exchange. Much complaining was heard from the dealers in exchange against the bank for doing this, but to the people generally the most signal benefits followed. McDuffie, however, fell into an error when he calculated the loss to the people at \$6,000,000 a year from the operations of commercial exchange. He estimated the extent of

many cases, lands and houses have been sold at less than a half, a third, or a fourth, of their former value, thereby depriving of their homes, and of the fruits of laborious years, a vast number of our industrious farmers.

"2. Forced sales of merchandise, household goods, farming stock and utensils, at prices far below the cost of production.

"3. Numerous bankruptcies and pecuniary embarrassments of every description, as well among the agricultural and manufacturing as the mercantile classes.

"4. A general scarcity of money throughout the country, which renders it almost impossible for the husbandman, or other owner of real estate, to borrow at a usurious interest, and where landed security of the most indubitable character is offered as a pledge. A similar difficulty of procuring on loan had existed in the metropolis previous to October last, but has since then been partially removed.

5 and 7. "A general suspension of labor," and "a universal suspension of all large manufacturing operations.

"6. An almost entire cessation of the usual circulation of commodities, and a consequent stagnation of business, which is limited to the mere purchase and sale of the necessaries of life, and of such articles of consumption as are absolutely required by the season.

8 and 9. "Usurious extortions," and "the overflowing of our prisons with insolvent debtors, most of whom are confined for trifling sums.

10 and 11. "Numerous lawsuits," and "vexatious losses arising from the depreciation and fluctuation in the value of bank-notes, the impositions of brokers, and the frauds of counterfeiters.

"12. A general inability in the community to meet with punctuality the payment of debts, even for family expenses, which is experienced as well by those who are wealthy in property as by those who have hitherto relied upon their current receipts to discharge their current engagements."—Appendix, RAGUET'S *Currency and Banking*, p. 289.



those operations at \$60,000,000 a year, and the loss sustained by the merchants, planters, farmers, and manufacturers, ten per cent of this sum,—“the excess of the rate of exchange between its natural rate in a sound state of the currency, and beyond the rate to which it had been actually reduced by the operations of the Bank of the United States.” This annual tax of \$6,000,000, he affirmed, was levied from the commercial cities by those who were engaged in the business of brokerage. But the brokers, while doubtless making a very handsome profit, levied no such tax. As another has explained, had the rates of exchange been in reality so inequitably unfavorable, remittances would have been made in merchandise. Indeed, this was often done; but the results did not essentially vary, for the prices of goods, measured in the depreciated local currency, rose with its depreciation. If a bill on Boston was at eight per cent advance, it would have bought in the market from six to eight per cent more produce than the bill of a Charleston bank.<sup>1</sup> Had business been transacted in the legal money of the land, there would have been no misconception of the truth of these transactions. Nevertheless, the dealers in bills of exchange flourished while the uncertain sea of exchanges existed, and the United-States bank performed a great and valuable work in equalizing them throughout the country.

The bank, says McDuffie, actually furnished a circulating medium more uniform than specie. Funds could be transported from one part of the Union to another, through the aid afforded by the bank, at an expense not

<sup>1</sup> N. Am. Rev., vol. xxxii. p. 55.



exceeding one-half, and frequently less than one-quarter, of the cost of carrying silver.

For all the purposes of revenue, it furnished a national monetary circulation of perfect uniformity, attaining that ideal perfection which even a currency of gold and silver, in a country so extensive, cannot possess. All the funds of the government were transported from one point to another free of expense; thus furnishing, "both to the government and to the people, a currency of absolutely uniform value in all places, for all the purposes of paying the public contributions, and disbursing the public revenue."

"Upon the whole, then," concludes a committee of investigation in 1830, "it may be confidently asserted that no country in the world has a circulating medium of greater uniformity than the United States, and that no country of any thing like the same geographical extent has a currency at all comparable to that of the United States, on the score of uniformity."<sup>1</sup>

The same view was entertained by the Senate committee who inquired "into the expediency of establishing a uniform national currency for the United States." Senator Smith of Maryland was chairman. After showing what currency was furnished by the State banks, the committee remark, —

"There is, however, superadded to this currency, a general currency, more known, more trusted, and more valuable, than the local currency, which is employed in the exchanges between different parts of the country. These are the notes of the na-

<sup>1</sup> McDuffie's Report, April 13, 1830, 21 Cong., first session. Clarke and Hall, p. 734.

tional bank. These notes are receivable for the government by the nine thousand receivers scattered throughout every part of the country. They are, in fact, in the course of business, paid in gold or silver, though they are not legally or necessarily so paid by the branches of the bank in every section of the Union. In all commercial places they are received, in all transactions, without any reduction in value; and never, under any circumstances, does the paper, from the remotest branches, vary beyond a quarter of one per cent in its actual exchange for silver. Here, then, is a currency as safe as silver, more convenient and more valuable than silver, which, through the whole western and southern and interior parts of the Union, is eagerly sought in exchange for silver; which, in those sections, often bears a premium paid in silver; which is, throughout the Union, equal to silver, in payment to the government, and payments to individuals in business; and which, whenever silver is needed in any part of the country, will command it without the charge of the slightest fraction of a percentage. By means of this currency, funds are transmitted at an expense less than in any other country. In no other country can a merchant do what every citizen of the United States can do, — deposit, for instance, his silver at St. Louis, or Nashville, or New Orleans, and receive notes which he can carry with him a thousand or fifteen hundred miles, to the Atlantic cities, and there receive for them an equivalent amount of silver, without any expense whatever, and in no possible event an expense beyond a quarter of one per cent. If, however, a citizen does not wish to incur the anxiety of carrying these notes with him, or to run the hazard of the mail, he may, instead of them, receive a draft payable to himself or his agent alone, so as to insure the receipt of an equal amount, at an expense of not one-half, and often not one-fourth, of the actual cost of carrying the silver. . . . This seems to present a state of currency approaching as near to

perfection as could be desired ; for here is a currency issued at twenty-four different parts of the Union, obtainable by any citizen who has money or credit. When in his possession, it is equivalent to silver in all his dealings with all the nine thousand agents of the government throughout the Union. In all his dealings with the interior, it is better than silver ; in all his dealings with the commercial cities, equal to silver ; and if, for any purpose, he desires the silver with which he bought it, it is at his disposal, almost universally, without any diminution, and never more than a diminution of one-quarter per cent. It is not easy to imagine, it is scarcely necessary to desire, any currency better than this.”<sup>1</sup>

The bank had thus fulfilled the great ends for which it was created. It had restored specie payments ; it had equalized the exchanges ; it had furnished a currency which was readily accepted throughout the Union ; it had kept the government deposits safely, and had conducted all the public business intrusted to it honestly and efficiently. So far as the government was concerned, there was no ground for complaint, no reason to fear mismanagement in the future. The ill effects produced by wrong management in the beginning had passed away, and the great value of the institution was everywhere acknowledged.

When Jackson became President, in 1829, his enmity toward the bank was not long concealed.<sup>2</sup> He de-

<sup>1</sup> Clarke and Hall, p. 772.

<sup>2</sup> In his first annual message, the President said, “The charter of the Bank of the United States expires in 1836, and its stockholders will most probably apply for a renewal of their privileges. In order to avoid the evils resulting from precipitancy in a measure involving such important principles, and such deep pecuniary interests, I feel that I cannot, in justice



clared that it was corrupt and dangerous. His opposition, in truth, was grounded in no such lofty sentiments. He was opposed to it because he could not control its offices, and convert the institution into a piece of party machinery. Hitherto the hand of the political partisan had not been felt in its management. When the attempt was made to remove Mason, the president of the branch at Portsmouth, whose chief offence seemed to be that he "was a friend of Webster," Biddle, the president of the bank, thus wrote to the secretary of the treasury concerning the matter: "For the bank, which has specific duties to perform, and which belongs to the country, and not to any party, there is but one course of honor or of safety. Whenever its duties come in conflict with the spirit of party, it should not compromise with it, nor capitulate with it, but resist it — resist it openly and fearlessly. In this, its interest concurs with its duty, as, it will be found at last, such is the good sense of the country, that the best mode of satisfying all parties is to disregard them all." Unable to remove its officers, or to take away its charter, the President sought to cripple its resources by withdrawing the government deposits.

to the parties interested, too soon present it to the deliberate consideration of the Legislature and the people. Both the constitutionality and the expediency, of the law creating the bank, are well questioned by a large proportion of our fellow-citizens; and it must be admitted by all, that it has failed in the great end of establishing a uniform and sound currency. Under these circumstances, if such an institution is deemed essential to the fiscal operations of the government, I submit to the wisdom of the Legislature, whether a national one, founded upon the credit of the government and its revenues, might not be devised, which would avoid all constitutional difficulties, and, at the same time, secure all the advantages to the government that were expected to result from the present bank."



Ingham, the secretary of the treasury, was stoutly opposed to their removal. His successor, McLane of Delaware, in his annual report to the House, remarked, that, during the year, incidents had occurred which "tended to disturb the public confidence in the management of the institution; and these, taken in connection with the necessary arrangements in anticipation of finally closing its business, had suggested an inquiry into the security of the bank as a depository of the public funds." What, in truth, was the condition of the bank at this time? Its liabilities amounted to \$37,296,950.20, and the fund to meet them \$79,593,870.97; showing an excess of \$42,296,920.77. The secretary's blow somewhat diminished the value of the stock until the true condition of the bank became known. Congress treated so grave a matter justly; for, after making an investigation of its affairs, the House voted, by 109 to 46, "that the government deposits may, in the opinion of the House, be safely continued in the Bank of the United States." McLane was satisfied, and he no longer doubted that the right policy of the government was to let the deposits alone.<sup>1</sup>

Not so thought the President. McLane, therefore, stepped aside, and Duane of Pennsylvania was appointed secretary, who, the President supposed, would be a supple tool for effecting their removal. But in Duane the President found a very "refractory subordinate." Four members of the cabinet were, indeed, on Duane's side: but then he sorrowfully learned that the cabinet was not the real advisory board of the President; there was still another, termed the "kitchen-cabinet," which was the

<sup>1</sup> Gordon's War on the Bank of U. S., p. 16.

moving power. The legally formed cabinet had a nominal existence. It was a kind of dummy body. Duane soon learned what the President expected of him. The secretary tried to convince the President of the impolicy and injustice of removing the deposits, but in vain. Jackson possessed an indomitable will, which towered very high above his knowledge, especially of many public questions. He was now straining every fibre to destroy the prosperity of the country, and knew it not, or else did not care. If so, his sin was still less pardonable. He knew perfectly well that Congress was opposed to the removal of the deposits, and so were the people, and that grave consequences were feared if the event occurred. But Jackson was as unmoved by the popular fury that raged against him as the Rock of Gibraltar is by the winds which whistle around it. Finding that Duane would not remove them, he removed Duane, and appointed in his place Taney, who had previously written a letter for the President, giving reasons in favor of their removal.<sup>1</sup> No arrangement had been made with the State banks; yet the President, through his secretary, did not hesitate to plunge the fiscal operations of the country into the dreaded gulf of confusion and uncertainty, at a time when they were conducted by the legitimate agent of the government with the utmost simplicity, safety, and despatch.<sup>2</sup>

<sup>1</sup> Narrative and Correspondence concerning the Removal of the Deposits. This work was prepared by Duane himself, who published two hundred and fifty copies, and sent them to his friends. It is composed largely of letters that passed between the President and himself. It is a painful exposure of the President's conduct.

<sup>2</sup> Gordon, p. 37.

The sensation produced by this extraordinary act in commercial, financial, and business circles in every part of the United States, was unprecedented. The banks everywhere, but especially in the commercial cities, were compelled to call in their loans, and curtail their circulation; trade and commerce became embarrassed; distrust and uncertainty prevailed, putting a stop to enterprise; almost every product was reduced in value, and was unsalable; manufactures were checked, laborers thrown out of employment, failures and bankruptcies were of daily occurrence; and general financial distress pervaded the country.<sup>1</sup>

Removed by wish of the President, and contrary to the well-known wish of the people and the clearly expressed judgment of both Houses of Congress, the entire business of the land was fearfully shaken by the event, as by a tremendous earthquake, from which it did not recover for many a year.

The bank, having been deprived of the public funds, could protect itself only by curtailing its discounts; and this action intensified the prevailing commercial distress.

At the opening of the next session of Congress, Taney communicated a special report on the subject.<sup>2</sup> Declaring that by the usage and practice of the government the power of removal was intended to be reserved exclusively to the secretary of the treasury, and that the exercise of this power did not depend merely on the safety of the public money in the possession of the bank, nor on the fidelity with which it conducted itself, but rather on

<sup>1</sup> Sargent's Public Men and Events, vol. i. p. 256.

<sup>2</sup> December, 1833.

the promotion of the public interest and convenience, he then stated the reasons which induced him "to believe that it was necessary, for the interest and convenience of the people, that the Bank of the United States should cease to be a depository of public money."

Assuming that a new charter would not be granted to the bank, it was "obvious that the interests of the country would not be promoted by permitting the deposits of the public money to continue there until its charter expired."

It was "well understood that the superior credit heretofore enjoyed by the notes of the bank was not founded on any particular confidence in its management or solidity: it was occasioned altogether by the agreement on behalf of the public, in the Act of incorporation, to receive them in all payments to the United States; and it was this pledge, on the part of the government, which gave general currency to the notes payable at remote branches." This obligation on the part of the government would cease the 3d of March, 1836, when the charter of the bank expired. When this event happened, its outstanding notes would lose their peculiar value, and those payable at distant places would become as much depreciated as the notes of local banks. If, in the mean time, no other currency were substituted in their place, it was easy to foresee the extent of the embarrassment which would be caused by the sudden derangement of the circulating medium. He had "no doubt" that the State banks could furnish a general circulating medium, quite as uniform in value as that which had been afforded by the Bank of the United States, "probably more so;" but the substitution could



not be made at the same moment in every part of the Union. It was "essential that the change should be gradual; and sufficient time should be allowed to suffer it to make its way by the ordinary operations of commerce, without requiring a hasty and violent effort."

Another reason for removing them was the conduct of the bank in rapidly curtailing its discounts a few months prior to making his report. He then sought to show how the institution had concealed its mode of doing business from the government directors, "regardless of the duties of its agency;" that its own interest was "its ruling principle," while the just claims of the public were treated with but little regard; and that there was "sufficient evidence to prove that the bank had used its means with a view to obtain political power, and thereby secure the renewal of its charter."

Congress deemed the secretary's reasons for removing the deposits insufficient. Nor did the opinion of the people differ from the opinion of the majority of Congress. The "Union Committee," appointed by merchants and others of New York to express their views respecting the matter, exposed the weakness of Taney's reasoning. Albert Gallatin, whose very acute knowledge of finance has never been surpassed, if equalled, by any American financier, was chairman, and drew the report.<sup>1</sup>

With respect to the first reason assigned by Taney for removing the deposits, — that "the public deposits would always amount to several millions of dollars, and that it would evidently produce serious inconvenience if such a large sum were left in possession of the bank until the

<sup>1</sup> New York, 1834.

last moment of its existence, and then be suddenly withdrawn, when its immense circulation would be returning upon it to be redeemed, and its private depositors removing their funds into other institutions," — the committee remarked that no inconvenience was felt in March, 1811, when the charter of the former United-States bank expired; although the deposits there, the first of the year, exceeded six millions, and, on the day when the charter ceased, amounted to two and a half million dollars. But Taney, in his annual report on finances, had estimated "the balance that would be left in the treasury (that is to say, the whole amount of the public deposits) on the 31st of December, 1834, at less than three millions of dollars, and that the receipts of 1835 would be less than those of 1834." — "This single fact," add the committee, "thus officially announced, — the natural and gradual reduction of the public deposits, in the course of the present year, to less than three millions of dollars, — refutes all the arguments, of every description, urged in justification of that measure."

The committee contended that the superior credit enjoyed by the notes of the Bank of the United States was due principally to the general confidence in its management and solidity. At the expiration of its charter, the notes of interior branches, if found at the seaports, might depreciate, unless the bank, which was probable, "should find it their interest to pay them wherever presented." The obvious mode to lessen the gross amount of these notes was a repeal of the law making them receivable in payment of debts due to the government. The removal of the public deposits could have no effect on the circula-

tion of the notes of the bank. In truth, the amount for several months after that event was somewhat increased.

The curtailment of discounts "was a necessary consequence of the withdrawing of the public deposits." "The author of this measure," say the committee, "is responsible for all the effects that may have flowed from the curtailments. It is idle to say that they have been greater than was expected, or made at a different time, or in a different manner, from what had been anticipated. If it were impossible for the Executive, or for any human being, to foresee what the bank, under those circumstances, might be compelled or inclined to do, and the effects which its acts might have on the currency and commerce of the country, — that was a sufficient reason for not adopting with precipitation a measure in itself wholly unnecessary. But, if there is an excuse for want of foresight, no apology can be found for obstinately persevering in an erroneous course after the error had been discovered, and the fatal effects of the measure had become undeniable."

It is worthy of note, too, at the very time when the curtailment of discounts by the bank was alleged as a cause for the removal of the public deposits, Taney did this, so he himself declares, to cause the retiring of the notes of the bank, the inevitable effect of which movement was to contract discounts still more. Thus he sought to have the bank do the very thing of which he accused it. He compelled the institution to curtail discounts, and then most unjustly blamed it for so doing. The fairest construction, perhaps, to put on Taney's conduct is, that he did not comprehend what he was about, nor the consequences of his own acts. Others

comprehended them clearly enough, but he was financially blind.

Having been removed, Congress could not order the secretary to restore the deposits to the bank. Jackson was not the man to turn back, whatever might be the consequences of standing still or of going forward. Notwithstanding the loss and distress into which he plunged his country, there was no relenting.

A few months before the presidential election in 1832, the bank put forth a tremendous effort to renew its charter. A renewal was granted by both Houses, but the bill was vetoed. It could not be passed over the veto, and thus the fate of the bank was determined.<sup>1</sup>

During the discussion of the veto in the Senate, Mr. Clayton<sup>2</sup> of Delaware uttered the following remarkable prophecy: "In less than four years, the pecuniary distress, the commercial embarrassments, consequent upon the destruction of the United-States bank, must exceed any thing which has ever been known in our history. . . . The depreciation of paper operates as a tax on the farmer, the mechanic, and all the consumers of merchandise, to its whole amount. The loss of confidence among men; the

<sup>1</sup> Soon after the President's veto, Ingham, Jackson's first secretary of the treasury, wrote: "The bank has purified one of the worst currencies that ever infested any country or people. It consisted of mere paper, of no definite value, accompanied by worthless tickets, issued from broken banks, petty corporations, and partnerships, in almost every village. Instead of this, the United-States bank has given us the best currency known among nations. It supplies a medium equal in value to gold and silver in every part of the Union. . . . Yet Gen. Jackson would destroy this institution, and expose the country to all the evils from which it has so happily but just recovered."

<sup>2</sup> July 11, Cong. Debates, vol. viii. Part I, p. 1263.



total derangement of that admirable system of exchanges which is now acknowledged to be better than exists in any other country on the globe; overtrading and speculation on false capital in every part of the country; that rapid fluctuation in the standard of value for money, which, like the unseen pestilence, withers all the efforts of industry, while the sufferer is in utter ignorance of the cause of his destruction; bankruptcies and ruin, at the anticipation of which the heart sickens, — must follow in the long train of evils which are assuredly before us.”

The deposits having been removed, and a renewal of the charter refused, the good feeling which had hitherto existed between the bank and the government ceased. They were no longer friends, but enemies. The bank would not allow the officers of the government to inspect its books, nor to interfere in its affairs. It declined to comply with the order of the secretary of war to deliver the books, papers, and funds connected with the disbursements to officers and soldiers of the Revolutionary war. Again and again did the bank refuse to allow the government directors to participate in its business; and a special committee, who were appointed to investigate its affairs in April, 1836, were very unfairly treated.

It procured a charter from the State, and continued to do business as a State institution, but re-issued the notes of the old bank, and declined to settle with the government. The new bank voluntarily assumed all the obligations of the former bank: on the other hand, it took all the government stock. Thus it was somewhat peculiar with respect to its capital and obligations. It was simply the old bank transformed into a new one; or, rather, it

was the old bank acting under State instead of national authority.

The value of the government stock at this time was \$7,583,698.59; the par value, \$7,000,000. The commissioners who were appointed by the secretary of the treasury to investigate the matter appraised the stock at \$8,119,215.99, which, they declared, was at the disposal of a few bank directors, of whom the people knew nothing. "The people's money is thus seized upon, and detained, for the purpose of redeeming notes over and over again, re-issued in violation of law, and obligations voluntarily assumed." On March 3, 1836, the bank stood thus: notes in circulation, \$21,109,352.23; specie, \$5,595,977.25; and, in November, notes in circulation, \$9,733,032.28; specie, \$3,275,292.36, — a reduction of nearly one-half in specie, and more than one-half in circulation; although, in the mean time, it had contracted a loan in Europe of \$6,788,194.44, and its liabilities were equal to its entire resources. After that time its business and specie still further dwindled; and an investigating committee predicted that if the redeemed notes of the expired corporation continued to be re-issued, as they had been, in a few months the whole resources out of which the claim of the government ought to be paid would be "abstracted, and an entirely different responsibility substituted, and one of a very doubtful character."

The remedy proposed was, that until the notes of the old bank, returned after the 3d of March, were redeemed and not re-issued, and the amount due to the government was settled to the satisfaction of the secretary of the treasury, the notes of the Bank of the United States, and those of

the new one, should not be received in payment of debts due to the government.<sup>1</sup> The bank finally made a proposition for settling the government claim, which was accepted, and duly executed.<sup>2</sup>

When the deposits were removed from the United-States bank, the secretary of the treasury placed them in State banks, which were called "Pet Banks." These institutions were directed by the secretary of the treasury to make liberal discounts, in order to relieve the stringency of the market caused by the new policy of curtailing discounts, which the Bank of the United States was obliged to adopt. This direction was hardly needed; for their desire to earn fat dividends led them to increase their discounts rapidly, and paper money became more abundant than ever. New banks, too, had been chartered in every direction, in expectation of the refusal of Congress and the Executive to renew the charter of the United-States bank. At the opening of 1830 the aggregate capital of the banks in the country was \$145,192,268, and their deposits were \$55,559,928, — a total of \$200,752,196. Their loans and discounts at the same period were \$200,451,214, approaching very nearly the aggregate amount of capital and deposits. Eight years afterward the aggregate capital of the banks was \$290,772,091, and their deposits were \$127,397,185, — a total of \$418,169,276. Their loans and discounts at the same period were \$525,115,702, or more than twice the amount of loans in 1830, and exceeding the aggregate amount of capital and deposits \$156,946,426.<sup>3</sup> Said Hugh A. Garland

<sup>1</sup> Report No. 272, Feb. 22, 1837, 24 Cong., second session.

<sup>2</sup> Act, March 3, 1837, 24 Cong., second session, Res. 5.

<sup>3</sup> Dem. Rev., vol. xii. p. 426.

of Virginia,<sup>1</sup> "The State banks, within a few years, nearly doubled their original number, were greatly enlarged in their powers and nominal resources, and made to pour forth with prodigal hand their spurious issues of paper money, — those pictured shadows, that bewildered the brain, intoxicated the hearts of the people, and drove them into the maddest schemes of speculation and extravagance. Never did any nation, in the same space of time, make more rapid advances in degeneracy, or approach nearer a total abandonment of that great moral law which constitutes the well-being of all civil society, and a substitution in its place of those time-serving expedients of interest and selfishness which never fail to end in fraud, oppression, and ruin."

There were those, even among the President's strongest adherents, who saw the danger of issuing bank-notes without any restriction. In the summer of 1834 a bill was enacted,<sup>2</sup> providing for a re-adjustment of the value of gold and silver money; and Benton and others confidently believed that specie would once more circulate. "The Washington Globe," which was the leading organ of the administration, indulged in the following strain of ecstatic prophecy: "A great stream of gold will flow up the Mississippi River from New Orleans, and diffuse itself all over the great West. Nearly all the gold coinage of the New World will come to the United States. This will fill the West with doubloons and half-joes; and, in eight or nine months from this time,<sup>3</sup> every substantial citizen will

<sup>1</sup> An Oration delivered in New York, in 1840, on the Passage of the Independent Treasury Bill, p. 25.

<sup>2</sup> June 28. See Part III., chap. 2, on Coinage.

<sup>3</sup> July 16, 1834.



have a long silken purse of fine open net-work, through the interstices of which the yellow gold will shine and glisten. Every substantial man, and every substantial man's wife and daughter, will travel upon gold. The satellites of the bank alone, to show their fidelity to their liege monarch, will repine at the loss of paper." "Benton mint-drops" or "Jackson yellow-boys" were coined in considerable quantities; but not many of them ever shone through "the interstices" of the "silken purses" of "substantial" or any other kind of citizens.

This vast increase of banking accommodations led to speculations of the wildest character, and planned on the grandest scale. One form of speculation was in buying government lands. To check it, a resolution was introduced into the Senate, requiring payment to be made in gold and silver, which, however, was rejected. The secretary of the treasury then issued a circular, known afterward as the "specie circular," requiring payment to be made in the precious metals. This circular was drawn by direction of the President, beside whom, Senator Benton and Mr. Woodbury (the secretary of the treasury) were chiefly instrumental in preparing and applying the remedy.

The "circular" set forth, that in consequence of complaints which had been made of frauds, speculations, and monopolies, in the purchase of public lands, and of the aid given to effect these objects by excessive bank-credits, and other facilities furnished by the banks, after the fifteenth day of August,<sup>1</sup> nothing but gold and silver, and in proper cases Virginia land-scrip,

<sup>1</sup> The circular was dated July 11, 1836.

would be received in payment for public lands. But an actual settler, or a *bona fide* resident of the State where land-sales occurred, was permitted to pay, as heretofore, in bank-bills.

The measure immediately excited general alarm. Banks were frightened, and refused to grant further accommodations, and called in their loans as rapidly as possible. The pressure of the banks was very great. A panic had been started by what was termed another "experiment" with the currency. A great revulsion set in: property was sacrificed, and prices marched swiftly downward. The annual sale of public land, which formerly was from two to four million dollars, had risen to twenty-five million dollars; and a surplus of revenue had accumulated in the deposit-banks of twenty-five or thirty millions, which was soon to be distributed among the States by a law commonly called the "Distribution Act," the bill for which was introduced by Henry Clay.

The circular had a very different effect from what was intended. It operated most effectually to banish gold and silver. "These," said a trustworthy observer after the circular was issued, "are never seen at the West; and a five-dollar bill cannot be changed into specie in a ride of thirty miles."

But the wealthy speculator from Boston, New York, Philadelphia, and other places, easily surmounted the difficulties raised by this circular. He would arrange with persons inhabiting the State where he wished to purchase land, and bought it in their names. He needed no specie, yet he obtained all the land he wanted; while others, possessing smaller capital, were obliged to carry

specie a long way, which, as soon as paid for land, flowed back to the East.<sup>1</sup>

At the next session of Congress, a bill repealing the circular passed both Houses by a large majority; but the President vetoed it, and, Congress having adjourned, the bill was killed. Had Congress remained in session, doubtless the bill would have passed over the veto. Thus the evils caused by the circular were prolonged; the Executive learning nothing, and determined to pursue his own way, no matter how costly it might be to the business and happiness of the country.<sup>2</sup>

Of course such a flood of paper money could not roll over the land very long without causing injury. In a few months fear struck into the people, and they demanded specie of the banks in exchange for their notes. This movement immediately exposed their hollowness, just as Oro, the war-god of Tahiti (so runs the tradition) disclosed the hollowness of the high peaks of the romantic island of Eimeo by hurling his spear over the sea at the god who dwelt there. Nearly all the banks failed. The people then realized more keenly than ever the loss of the United-States bank. Its notes, like the rivers of Chaldea when the empire flourished, were watched and kept in their courses, and not suffered to overflow or work injury, but to minister unto the comfort and wealth of the people; while the notes of the State banks were like those rivers after the empire passed away, when, not restrained in their courses, and overflowing their banks, they spread over the country,

<sup>1</sup> Benton's Thirty Years in the U. S. Senate, vol. i. p. 676.

<sup>2</sup> Sargent, vol. i. p. 320.

causing pestilential swamps, from which untold injury arose.

When the banks went down, they had the government deposits: this was in May, 1837. Van Buren's administration was only two months old. The President was a warm admirer of Jackson, and had formally announced that he would continue his predecessor's policy with respect to the management of the deposits. But the "experiment" had suddenly culminated. The government deposits were not in its control, and could not be regained; their transfer from one part of the country to another had ceased; and the banks no longer furnished a paper money of uniform value. On the other hand, it fluctuated wildly: the bills of one State were at a discount in an adjoining State; and, the farther away they wandered from their home, the more they shrank in value. Such was the inevitable result, clearly foreseen by many, of President Jackson's "humble efforts," to use his own words, "to restore the constitutional currency of gold and silver."

Once more, therefore, the government was confronted with a grave question touching its deposits and the circulating medium. It now essayed a brand-new experiment.<sup>1</sup> This was nothing less than keeping the deposits itself, and transferring and paying them as occasion required; while the people were left to regulate the currency them-

<sup>1</sup> It is true that Gen. William F. Gordon of Virginia introduced a bill into the House on the 20th of June, 1834, to establish the sub-treasury system; but almost all of Jackson's friends voted against it. See Tract for the Times, Wash., 1844, p. 4, and debates in the House, Feb. 11, 1835, and afterward. See speech of Silas Wright.



selves. This was a very wide departure from any former policy. The mode proposed of keeping the public deposits may be briefly described. The treasury building at Washington was to constitute the treasury of the United States, and the public money was to be kept within its vaults. The mint at Philadelphia, the branch at New Orleans, the new custom-houses in New York and Boston, were also to contain branch treasury vaults. Places were also to be prepared at Charleston, St. Louis, and elsewhere. The treasurer of the United States at Washington, and the treasurers of the mints at Philadelphia and New Orleans, were to be "receivers-general," to keep the public money, and with slightly increased salaries for performing this additional duty: bonds were to be required for the faithful performance of their duties. But Congress refused to sanction the experiment.<sup>1</sup>

The action of the executive department of the government was opposed to the wishes of Congress and of the country nearly the whole period from 1833 to 1840, with respect to the management of the deposits. When they were withdrawn from the United-States bank by the secretary of the treasury, in obedience to the will of the President, and delivered to the State banks, Congress condemned the act, and so did the country. The memorials sent to Congress testify powerfully that the general sentiment of the people was opposed to the course of the Executive. Nevertheless, the change was continued from October, 1833, until June, 1836,<sup>2</sup> when the State-bank system was finally legalized. This system, however,

<sup>1</sup> Dem. Rev., vol. xviii. p. 327.

<sup>2</sup> Act, June 23, 24 Cong., first session, chap. 115.

exploded the next spring; and the Executive ordered the government officials to keep the public money in their own hands. At the extra session of Congress in 1837, the Executive recommended the sub-treasury experiment. Congress refused to try it, although a majority in both Houses belonged to the same political party as the President. Nevertheless, the system was continued, without legislative sanction, until 1840, when Congress finally passed a bill legalizing the measure.<sup>1</sup> At the presidential election in 1840, a party revolution occurred, and the sub-treasury system, which had formed a prominent issue in the campaign, was unqualifiedly condemned by the people. Congress repealed the law,<sup>2</sup> and passed a bill creating another national bank. But in the mean time the President died; and the Vice-President went over to the party that had opposed his election, and he vetoed the bill establishing the bank. Congress sought to pass a bill authorizing a fiscal agent, which it was supposed the President would approve, but they were disappointed. The President then brought forward a system called the "exchequer plan,"<sup>3</sup> but this Congress would not accept. Thus the keeping of the public money remained in the hands of the government officials, without legislative regulation, until the passage of the sub-treasury bill, in 1846.<sup>4</sup>

<sup>1</sup> Act, July 4, 26 Cong., first session, chap. 41.

<sup>2</sup> Act, Aug. 13, 1841, 27 Cong., first session, chap. 7.

<sup>3</sup> The plan was first set forth in a special report by Mr. Forward, the secretary of the treasury, Dec. 21, 1841, and afterward by a select committee. Caleb Cushing was chairman, and made the leading report, Feb. 17, 1842, No. 244, 27 Cong., second session. Garret Davis made a minority report, and John P. Kennedy a counter report.

<sup>4</sup> Act, Aug. 6, 29 Cong., first session, chap. 90.

The system established at that time has been maintained ever since, and is so deeply rooted, that no political storm is likely to be powerful enough to destroy it.

During the interval from 1840 until the re-establishing of the sub-treasury system, the secretary of the treasury deposited the public funds with the banks; and it may be worth while to inquire how the business was managed.

In New York there were, in 1841, seven banks in which the government deposits were kept. Each bank took all the deposits for a month. This gave to each bank a certain advantage over the rest; but, at the same time, the system established was a conservative one. The following illustration will show more perfectly the working of the system. The duties in the month of March, 1846, amounted to \$2,600,000 for the port of New York. They were paid into one bank by all the others. The balance in favor of that bank was consequently very large; and, as those balances were rigorously demanded, the debtor-banks were obliged to loan cautiously, while it enabled the government bank to lend freely, taking advantage of the improved value of money, which its own act, operating through the other banks, had created. It will be clearly seen, that, under such circumstances, the bank would naturally be anxious to use the funds at its disposal to the best advantage. As the money might be called for at any time, stock-loans afforded the readiest means of employing the funds profitably, and, at the same time, having them at command. A law of the State required these institutions to make quarterly returns of their affairs, and to state in the returns the amount of stock-loans, with a view to checking them. The banks, however, took the

stock as security, and a note payable on demand, which was counted as cash on hand. Millions of money were loaned in this way to stock speculators, and reported as cash on hand to the State comptroller. The general result, therefore, was, that under a "special clause," as interpreted by the banks, their funds were withdrawn from commercial paper, and loaned to stock speculators. This mode of using the public funds contributed not a little toward the re-adoption of the treasury system in 1846; yet probably those banks, if loaning the government deposits at all, could have found no other customers who would have borrowed them on the terms prescribed, and which were necessary both for the safety of the lenders, and the welfare of the government.

The opposition to adopting the system in 1846 was not so strong as it had been in 1840. The danger and evil of employing State banks were too palpable to be longer ignored, and the opposition to establishing another national bank was too great. President Tyler's exchequer plan fell flat, and nothing could be done to revive it. The only thing left was to divorce the government from the banks, and restore the sub-treasury system.<sup>1</sup>

The law re-enacted was defective. The appropriation for making safe depositories of the public money was too small. Though disbursing-officers, in common with others, were prohibited, under severe penalties, from lending or privately using the public money, or depositing it in banks, or from paying to the public creditors any thing but gold and silver, no places were specially pro-

<sup>1</sup> Dem. Rev., vol. xviii. p. 328.



vided for them in which to deposit their funds. This led to great irregularities. In not a few cases the government collected its dues in gold and silver for the benefit of the banks, and through the agency of its disbursing-officers; and the banks employed by them paid the public creditors with bank-notes, instead of the legal money of the United States.

Notwithstanding the imperfect manner in which the law was executed, much good was accomplished. All receipts for lands, customs, and other public dues, were paid in gold and silver and treasury-notes; and these were employed by the treasurer in making payments. In this way a stream of gold and silver was set in motion, limited indeed, and running chiefly from the public depositories to the bank, and then returning. But it swelled to larger dimensions.

When the system was re-established, large loans were necessary; for the war with Mexico was then raging. They were effected without the agency of bank-notes and bank-credit; and all the important and fiscal operations of the United States were conducted without disturbing the business of the banks or of the merchants.

Gouge, who made a special report of the workings of the sub-treasury in 1855, and another the year afterward, affirms that the banks would have expanded their issues more, had the sub-treasury system not been in existence. "If the public money had been deposited with them, they would have made it the basis of new issues and discounts. Our importations of foreign commodities would have been much greater than they have been, and the attempt to pay for them would have drained the country

of its specie. The constitutional treasury system, and that alone, has saved the country from scenes of inflation and speculation, such as we had in 1835 and 1836, which would necessarily have been followed by scenes of distress and disaster, such as we had from 1837 to 1843." This is admitted by many who were once the active opponents of the system.

At the same time Gouge<sup>1</sup> answered the objection touching the unproductiveness of the money in the treasury offices. The same thing, he declared, might be said of the goods in the warehouses of the merchants, or the grain in the granaries of the farmers. In such a country as ours, there ought to be somewhere a reserved fund of gold and silver; and no more appropriate place could be found for such a reservoir than the United-States treasury.

One evil arising from the system, related to the manner of transferring the public funds. One mode was to transfer specie from one place to another, as the case required; but this involved time, risk, and expense. Another mode was to transfer drafts to bankers, brokers, and others, and allow them the use of the money for such time as would be regarded a compensation for the expense of transporting specie from one depository to another; but losses occurred under this system, and it also gave rise to favoritism. By properly timing the transfer-drafts, so that one should lap upon another, the permanent use of public money was given to official favorites. Thus there was a constant temptation to make these transfers, even when not needed for the public ser-

<sup>1</sup> See Gouge's Reports, 1855, 1856, *Bank Mag.* vol. ix. p. 625; *Ibid.*, vol. x. p. 609.

vice. Under this system of credit transfers, Gouge reported that the monthly statements appeared to be about three times as great as they were under the previous cash system. Under that, the transfers to New Orleans were about \$38,000 a month: under the credit system, they swelled to \$227,000. In like manner they were increased at Washington City from \$135,000 to \$225,000 a month. In 1854, however, this evil was corrected. All persons who had been employed to make transfers on time were required to pay; and in the end the government sustained no very heavy losses. Three years afterward all disbursing officers were required to deposit the money intrusted to them with the treasurer, or an assistant treasurer, of the United States, and "to draw therefor the sum only in favor of the person to whom payment" was to be made, except for sums less than twenty dollars.

## CHAPTER III.

## TARIFF LEGISLATION.

1816-1824.

IMMEDIATELY after declaring peace, foreign goods in vast quantities were sent to our shore. Though a heavy duty was levied on them, it formed a barrier not more effective in checking their importation than does a stone in retarding the movement of a stream greatly swollen by heavy rains. These goods were sent here by two classes of persons, induced or impelled by different motives. One class was composed of speculators, who sent vast quantities of goods to many quarters of the globe, expecting to realize enormous gains from their ventures. Much of the merchandise now coming to America was shipped by them. The losses incurred in many of these ventures were enormous. Lord Brougham, when describing the distress of Great Britain in 1816, remarked that he was very far from placing the vast exports which the peace with America had occasioned "upon the same footing with those to the European market the year before, both because ultimately the Americans will pay, which the exhausted state of the Continent renders very unlikely, and because it was well worth while to incur a loss upon the first exportation, in order, by the glut, to stifle in the



cradle those rising manufactures in the United States which the war had forced into existence, contrary to the natural course of things.”<sup>1</sup> Notes having been given by the speculators for the larger portion of their goods, they could not be kept very long, and consequently were forced on the market. A great many manufacturers, too, in order to meet their obligations, were obliged to send their products here, and sell them for what they would fetch. Vast quantities were sold at auction, prices fell, and the American manufacturer’s vision of wealth suddenly vanished. His day of prosperity had been brief, — only an arctic summer. His future was filled with darkness and fear.<sup>2</sup>

Congress, manufacturers, and the people generally, understood these things before attempting to revise the war-duties. Yet having been laid for a temporary end, it was necessary to revise them. Congress referred the subject to the secretary of the treasury, Dallas, who reported at the December session in 1816. He said that three objects ought to be kept in view: first, of raising, by duties on imports and tonnage, the proportion of public revenue which must be drawn from that source; secondly, of conciliating the various national interests, — agriculture, manufactures, trade, and navigation, and, lastly, of rendering the collection of the duties convenient, equal, and certain.

The amount recommended by the Committee of Ways and Means to be raised from imports, was adopted by Dallas as the basis of his estimate. The amount was

<sup>1</sup> Hansard’s Parl. Debates, first series, vol. xxxiii. p. 1099.

<sup>2</sup> Report of Com. on Manufactures, N. Y. Leg., 1817, 12 Niles, p. 235.

\$17,040,000. The addition proposed to the duties existing prior to the Act of July, 1812, was an average rate of forty-two per cent. The whole amount of revenue required was fixed at \$24,000,000; and the balance was to come from internal sources.

Dallas declared there were but few, if any, governments which did not regard the establishment of domestic manufactures a chief object of public policy. The United States had always thus regarded it. There were those, indeed, who contended, that, in applying industry to manufactures and commerce, all should be left to pursue their own course, untouched by the hand of the government. Without examining how far this opinion was sanctioned by experience, Dallas remarked that American manufactures, particularly those which had been introduced during the restrictive system and the war, owed their existence exclusively to the capital and the skill, the enterprise and the industry, of private citizens. The demands of the country, while the acquisition of supplies from foreign nations was either prohibited or impracticable, might have afforded a sufficient inducement for the investment of capital, and this application of labor; but "the inducement in its necessary extent" must fail, he declared, when the day of competition returned. The preservation of the manufactures, which private citizens, under favorable auspices, had constituted the property of the nation, became a consideration of general policy, to be resolved by a recollection of past embarrassments, by the certainty of an increased difficulty of re-instating upon any emergency the manufactures which should be allowed to perish, and by a just sense of the influence of domestic

manufactures upon the wealth, power, and independence of the government.<sup>1</sup>

Such were the weightier thoughts of Dallas, who was now one of the foremost men in the republic. The majority of the Committee of Ways and Means agreed with him ; and accordingly, in March, the chairman, Mr. Lowndes, reported a bill to regulate the duties on imports and tonnage. Mr. Clay, for the first time, appeared as the advocate of "a thorough and decided protection to home manufactures by ample duties." The debate in the committee of the whole began the 20th of March, and continued until the 8th of April. Many speeches were delivered. Numerous amendments were offered, and several were adopted. Some of these amendments were for increasing the tariff, and others for diminishing it. Randolph was opposed to promoting the growth of manufacturing establishments to the extent and in the manner proposed by the bill, and offered a motion striking out the minimum duty of twenty-five cents a square yard on cotton goods. Calhoun replied to him, and remarked that the debate assumed a new aspect from Randolph's motion, as it was introduced professedly on the ground that manufactures ought not to receive any encouragement. He considered the subject before the House to be one that was connected with the security of the country. The security of a country depended on its spirit and its means ; and, modified as the industry of the country then was, its moneyed resources must, to a great extent, fail whenever it had the misfortune to be involved in war with a power dominant upon the ocean.

<sup>1</sup> 3 Finance, p. 85.

It must ever be considered the plain dictate of wisdom, In peace prepare for war. What, then, were the resources of this country, and what were the effects of war upon them? Commerce and agriculture, till lately almost the only, still constituted the principal, sources of our wealth. So long as these were not interrupted, the country prospered; but war, as we were now circumstanced, was equally destructive to both, since both depended on foreign markets, from which we were cut off as soon as we became involved in war with a maritime power.

Sectional and local interests were the centres around which spun the debate. Thus it has been in every subsequent discussion of this subject. Every speaker has acted as a reflector of the wishes of his constituency, instead of shining as an independent light.

New England was strongly opposed to protection as a principle, because her interests at that time were chiefly commercial. Kentucky favored protection because she was interested in the growing of hemp, and the manufacture of cotton bagging. Pennsylvania had been the mother of protection in order to develop her iron interests. Wool-growers and wool-manufacturers were on the same side. They were located partly in Connecticut, but were more numerous in New York. Southern members were divided, though quite generally they were in favor of the bill. Their chief reason for supporting it was to protect the banks, in that section of the country, which were not strong, and which feared that the purchase of India cottons might drain them of their specie, and leave only the dregs of their paper money. To protect the Southern banks, therefore, the members from that



section were willing to impose a duty on cotton goods; but to get such protection it was necessary to extend the application of the principle to other articles. Louisiana favored the bill in order to develop her sugar industry.<sup>1</sup>

The bill passed the House by a large majority; nor was its passage through the Senate long delayed.<sup>2</sup> The bill<sup>3</sup> was constructed on the principle of imposing duties virtually prohibitory on foreign articles of which a full domestic supply could be produced, and a duty of

<sup>1</sup> While the bill was under discussion, a member of Congress thus wrote to one of his friends about it: "I am vexed at the narrow-minded policy which prevails among many members. They came here to legislate for this great and growing nation; and they bring with them, and retain, all their local prejudices and distinct interests, and lose sight, or rather never get a sight, of the general interest. . . . The representatives of the sugar-growing States insist on a certain duty upon that article, and the East present a solid phalanx against it. The consequence, I doubt, will be that the South will unite against the duties in favor of woollens. . . . One would suppose that sheer interest would induce the opposite extremes of our country to be liberal to each other, to compromise, and make some mutual sacrifices for the good of the whole. The order of the day seems to be, to catch and keep, and huckster, sectional interests, without regarding the nation as a great whole." — 10 NILES, p. 81.

<sup>2</sup> "The tariff of 1816 first distinctly proposed protection as an end; and it is an interesting fact, that, on that ground, it received the support, not only of the Northern manufacturers, but also of the cotton-growers of the South, who wanted protection for their new staple against the competition of those countries from which the principal supply of it was then derived" (*N. Am. Rev.*, vol. xcvi., p. 463). In Cambreling's Report, Jan. 11, 1837, No. 86, 24 Cong., second session, the committee said, "There was danger that the sudden renewal of our intercourse with foreign nations, with whom we exchanged productions, would give a blow to manufactures from which they would not recover in many years. There was a general desire to moderate the shock; and the duties levied by the tariff of 1816 were, in some instances, higher than they were before the war, owing to its heavy expenses."

<sup>3</sup> April 30, 1816, 14 Cong., first session, chap. 107.

twenty per cent on those which could not be wholly supplied at home; while on a third class, embracing articles of large consumption chiefly produced abroad, the duties were adjusted with a view to raising the greatest revenue.

Among the more noteworthy features of the bill was the increase in articles charged with a specific duty. The "minimum principle" was really an extension of the same idea. This provided that all fabrics of cotton invoiced at less than twenty-five cents per square yard should be taken, in the computation of the duty imposed, to have cost that price at the place whence they were imported. By this device the normal rate of duties was doubled, and even trebled, on the cheaper and more necessary kinds of goods. It effected an absolute prohibition on low-priced cloths, which were thereafter produced in this country. "This arrangement," says the "Democratic Review,"<sup>1</sup> "was adopted by Congress with two distinct objects, both of which undoubtedly influenced the different parties according to their respective peculiar views, — the prevention of the importation of the cheap cotton cloths of India, whither none of the raw material produced by this country was exported, and in payment for which remittances in specie had to be made to a large amount; and the immediate benefit of our own manufacturing establishments: the latter consideration being naturally decisive with the North and East, while the former was doubtless mainly influential upon the South, whose banks were in a state of suspension, which made the exportation of specie and no cotton to India especially odious." This

<sup>1</sup> Vol. ii. p. 39.

principle, of which the people were to hear so much in future years, was introduced by South Carolina.<sup>1</sup>

What consequences may be fairly traced to this legislation? The law was regarded sufficient by many to protect the home manufacturer under a normal condition of things, such as Niles had prophesied would be reached "by and by." But auctions multiplied, at which goods were sold at very low prices. A manufacturer wrote to Niles soon after the law was passed, "I have it in my power to state I can manufacture broadcloths and cassimeres, fine or coarse, as cheap as they can be regularly imported, and make a handsome profit; but I cannot come into competition with the sacrifices now making, nor do I wish it."<sup>2</sup> The foreign goods with which the country was inundated, during the first year of peace, amounted to \$14,685,399. This was more than double the quantity that could be consumed. No wonder the prices fell swiftly and heavily.<sup>3</sup> Through the machinery of auctions, goods were drawn into every nook of the country.

They were often sold to the consumer on a credit of six, nine, or even twelve months. With low prices and long credits, the temptation to buy could not be resisted. The farmer and his family were just as eager to make purchases as any other class. By so doing they undermined the factory and their own house. During the war, many had been induced to expend large sums in introducing and breeding merino sheep, which had so increased as to form a considerable item of wealth. With

<sup>1</sup> Nathan Appleton, *What is a Revenue Standard?* p. 7.

<sup>2</sup> 11 Niles, p. 79.

<sup>3</sup> 11 Niles, p. 80.

the closing of American factories in 1816, sheep-raising declined, and the wool produced was exported chiefly to Great Britain. It is said that thousands of them were killed, and tried for tallow.<sup>1</sup>

The skies cleared a little after a few years; the prices of woollen goods advanced; and other individuals purchased the establishments erected during the war, and set them a-going. Their success tempted others to adventure. In 1821 the consumption of wool exceeded the amount raised, and a small quantity was imported. But the sun did not shine long. Soon our markets were overstocked with British woollen goods, which were sold, on account of the manufacturer or British agent, at auction, and for less than their actual cost.<sup>2</sup> Unless this huge wave of importation could be checked, the second set of woollen-manufacturers were sure to be swamped, and more quickly than the first had been. They loudly cried

<sup>1</sup> Martindale, — from whose speech, delivered in the House in February, 1824, many valuable facts may be gathered, — in drawing a picture of this period, said, “While this process of waste and devastation was going on, the provision-market was depressed also. There was little demand for the farmer's provisions, for his beef, pork, and wheat. The price was greatly reduced. But the habits of the farmer and his family were formed, and suited to better times. The customs, tastes, and fashions of the country, and his immediate neighbors, imposed a kind of moral necessity upon him to measure his expenses by theirs, not by his means. His expenses were greater than his income. The consequences were inevitable: his cash was first exhausted, and next the produce of his farm; his credit next, and (by a mortgage) next the farm itself. The expenses which produced the mortgage prevent the redemption. The farm is sold to pay for foreign goods, and the merchant becomes the purchaser. This is no unreal picture, which has no original in nature.”

<sup>2</sup> “Anterior thereto, our own merchants imported, on their own account, and at merely a fair mercantile profit, goods equal to the wants of the country.” — *Memorial, State of N. Y., 1824*, pp. 3, 4.



out to the government for help, for there was no prospect of getting relief from any other quarter.

The imposition of the twenty-five per cent duty on cotton goods, with the minimum valuation, was perhaps the most successful outcome of the tariff of 1816. The friends of protection had advocated the doctrine, that, while the imposition of a higher duty for a time might enhance prices to the consumer, competition at home would reduce them; so that, in the end, they would be lower than if our dependence were wholly or chiefly on a foreign market. The cheap cottons of India were excluded by the operation of the law, our wants were soon abundantly supplied by American manufactures; a fabric of better quality was made; and the cost to the consumer was lessened. This was indeed the most conspicuous triumph to the manufacturer and to the consumer by the operation of the law; yet the benefits to both classes in the manufacture and purchase of leather, boots and shoes, harnesses, saddles, bridles, cabinet furniture, carriages, hats, nails, shovels, and spades, may be mentioned.<sup>1</sup>

Clay had been one of the most zealous members of Congress in advocating high duties. He lived in a district where the cultivation of hemp was an important industry. Prior to the war, the towns of Inverness and Dundee, in Scotland, had supplied this country almost wholly with bagging for cotton. During the war the manufacture of this article was attempted. The prices at first demanded were very high; but, when the war closed, the prospects of the American manufacturer immediately changed. England had purchased vast quantities of

<sup>1</sup> See Condict's Speech, April, 1824, 18 Cong., first session.

hemp from Russia, during the war, to be used in the navy; but, with the return of peace, much was sold by the government to the manufacturers at Inverness and Dundee, who made it into bagging, and sent it to the United States. They crushed the American manufacturer. But having achieved the victory, the price of the article to the cotton-grower was immediately raised; and Clay affirmed, in 1824, that "the extra price would be more than equal to ten years' protection of our fabric." The American manufacturer had been overthrown, because his capital was too small to cope successfully with his foreign competitors. They continued to hold the market until 1822, when the manufacture of the article in Kentucky was revived; and during that year a million yards were made at Lexington, and the price was reduced from thirty-five to twenty cents per yard. Such was the effect of the tariff with regard to the manufacture and consumption of hemp.

In passing, it may be shown how the law affected the importation of spirituous liquors. Formerly twelve to fifteen million gallons a year had been imported. An income had been derived from that source, amounting nearly to two-fifths of the whole revenue. By the new tariff, the quantity imported was reduced to about four million gallons per annum. The use of spirits, however, had not diminished: on the other hand, it had increased in consequence of the cheapness of the domestic article and increased population. The tariff, therefore, had greatly reduced the importation of spirits; but, as it was a luxury, it should have been subjected to an internal duty. It was very poor statesmanship to suffer this article, which is

singled out by so many nations for heavy taxation, to bear a burden so light.<sup>1</sup>

Let us now consider how the iron-manufacturers fared after the enactment of this law. The most important establishments were just beginning to manufacture, when the law was passed. They had yet to acquire skill in management, system, — all the indispensable knowledge, which could be acquired only by experience. Nine-tenths, perhaps, of the owners, were in debt. In every respect these were infant manufactures. Notwithstanding the barriers imposed by law against importing foreign products, they were easily surmounted; and many of our manufacturers fell an easy prey to their mighty rivals. First went all the newly erected manufactories of earthenware. Of these and their workmen, no more was heard, half a dozen years afterward, than if they had never existed. In the same way went most of the glass-factories, and the manufactures of white and red lead. The manufacture of iron continued longer, but in a feeble way, dwindling every year, and gradually sinking under foreign importations. During the four years between 1817 and 1821, the holders of property in the United States were supposed to have suffered a depreciation of nearly eight hundred million dollars. “General bankruptcy spread its darkness over the land; many of the wealthiest families were reduced to poverty; laborers suffered for want of bread; improvements of all sorts were abandoned; and a scene of the most intense national distress ensued.”<sup>2</sup>

The terrible condition to which the iron-manufacturers

<sup>1</sup> See Mallory's Speech, February, 1824, 18 Cong., first session.

<sup>2</sup> Memorial, N. Y. Convention, Jan. 22, 1833, p. 9.

were reduced, after the war, may be shown more vividly by considering what befell those in a single locality. In the county of Morris, New Jersey, there were about forty manufacturing concerns at the close of the war. Of these, all save four or five were either abandoned or sold during the next eight years. Those that withstood the shock had accumulated wealth when the business was profitable, and, during the period of depressed prices, merely converted the surplus produce of their farms into cash by the operations of their forges, following the iron business as a secondary employment. Every man who made it his principal business, who sold his iron and purchased his provisions and stock, was ruined. His forge, his lands, his goods and chattels, were all struck off under the sheriff's hammer, at public auction. He himself was driven to jail. His workmen were unemployed: some of them followed their employer to prison; others emigrated to new countries. Their families were reduced to abject want, and compelled to ask relief from the town, or resort to beggary.

In 1818<sup>1</sup> the iron interests were suffering so severely, that a duty of seventy-five cents per hundred pounds, or fifteen dollars per ton, was imposed. With this advance, many of the iron-works in the country revived; and, by practising rigid economy, their owners were able for a time to continue the business. But the general peace declared in Europe, and the disbanding of about six hundred thousand men,<sup>2</sup> so long employed in arms, affected the price of labor, and the manufacturers of Sweden,

<sup>1</sup> Act, April 20, 15 Cong., first session, chap. 103.

<sup>2</sup> See Spencer Walpole's *Hist. of England*, vol. i. chaps. 1 and 2.



Russia, and England, could produce their goods so cheaply, that once more they undersold the American manufacturer. The importations of iron in 1821, '22, and '23 were so enormous that the American manufacturer was driven from the field. The government was as powerless to protect him from the competition of foreigners, as were the gods of antiquity, taken by each trade for its special protection, to prevent the coming and work of the destroyer. The average annual import had been about twenty thousand tons; but in 1823 these figures were exceeded by eleven thousand tons. Loudly did he cry, in union with other manufacturers, for more strenuous governmental protection.

Of the many industrial enterprises which had been launched during the war with so much confidence, only a few had had a prosperous history. Many had been hopelessly wrecked; while others were thumping against the rocks, and threatened with speedy ruin.<sup>1</sup> The magnitude of the dangers to which American manufacturers were ex-

<sup>1</sup> The Memorial of the New-York Chamber of Commerce, in 1824, to Congress, declared that the tariff of 1816 had so far fostered domestic manufactures, that they soon recovered from the embarrassments which followed the great influx of foreign goods in 1815, and had since, in most cases, when managed with skill and prudence, and aided by sufficient capital, been prosperous and profitable. "We do not hesitate to assert," the Memorial continued, "that money vested in such establishments has yielded better returns than money employed in commerce, navigation, or agriculture. Since that tariff has been in operation, and charges on importing foreign goods (including duties, and premiums on exchange) has varied from forty to fifty per cent on the first cost of those which pay *ad valorem* duties, and a much higher rate on those charged with specific duties, the premium to our manufactures has consequently been from two-fifths to one-half of the first cost of all foreign articles which come into competition with our domestic products." — p. 3.

posed, was not seen by them in the beginning. They did not consider that a great market, which their British brethren had held for more than two hundred years, through legislation, would, if possible, be retained through the might of capital, experience, and fraud. Lord Brougham's advice about strangling the infant manufacturer in the United States was hardly needed; it was followed unhesitatingly, and, so far as we know, without remorse. Necessity, too, often compelled the British manufacturer to unload upon our shore, however great might be his sacrifice. The cotton-manufacturers, indeed, had prospered, and the force of the huge wave of competition had been broken by the Alleghanies. Westward the iron manufacturers found a market for their wares at remunerative prices, but elsewhere the shock sustained by them had been terrific.

Much too severe was the pressure upon them from without, but they were also heavily handicapped by many causes at home, the probable consequences of which they ought to have considered. Many of their factories had been built with borrowed money possessing an inflated

<sup>1</sup> "It is notorious," says Niles, "that immediately after the close of the revolutionary war, great sums of money were expended to destroy our flocks of sheep, and ruin our rising manufactories. They bought up and immediately slaughtered great numbers of that useful animal, and spared no expense to send 'home' the few artists that had straggled hither, with their machines and implements of trade. These things are just as well known and established as that they are doing the same things now [July, 1818]. I am perfectly assured that in one vessel there went, from the United States to England, between ten and twenty manufacturers (natives of that country), passage free, and with handsome bounties; and I am quite satisfied that a very extensive business has been done in this way."—10 NILES, p. 322.

value. With the settling-back of values, and a contraction of the circulation, the burden of the manufacturers was greatly increased. The experiment would have been hazardous, even if they had fully owned their factories and machinery, and had possessed a working-capital of their own. Owing vast sums, and daily witnessing a decline in the value of their products, the hour came when they sorrowfully realized the hard conditions environing them, and the difficulty of achieving success.

Nevertheless they gained something: they acquired precious lessons of experience. Their necessities gave birth to greater economy and skill. Strange, indeed, had no one gained any thing amid so much misfortune and disappointment. But the consumer had gained more. He had bought at low figures. Meantime, hope perished not. Trusting to the government for further aid, the manufacturers continued the struggle.

## CHAPTER IV.

## TARIFF LEGISLATION.

1824-1832.

THE tariff of 1816, therefore, had sorely disappointed the manufacturers. Many branches of industry had been utterly destroyed: others were desperately continuing the unequal contest, hoping for a better day. Since the government had undertaken to protect them in their endeavors, they believed the government would not abandon them utterly to the fate of stronger competitors. The cotton-manufacturers were the only class who had held their ground, or attained any satisfying success. They, for the most part, were not disappointed with the results of their experiment.

The ill effects of foreign competition, as we have seen, appeared early; and the cry was soon heard for more governmental protection. Save raising the duties on iron in 1818, and reducing those on wine the next year,<sup>1</sup> the tariff of 1816 lasted eight years, when the subject received another elaborate discussion, from which emerged the tariff of 1824.<sup>2</sup>

The bill was reported to the House by the chairman

<sup>1</sup> Act, March 3, 1819, 15 Cong., second session, chap. 82.

<sup>2</sup> May 22, 18 Cong., first session, chap. 136.



of the committee on commerce and manufactures. The duties proposed were on two distinct classes of articles. The first class embraced silks, linens, cutlery, spices, and some other commodities of less importance; the importation of which did not interfere with the business of any home manufacturer, or with any manufacture for which the country was then prepared. But the most important duties proposed in the bill were of a protective nature. These were laid on iron, hemp, glass, lead, wool, and woollen goods.

The debate was hottest and most protracted with respect to the duties which should be imposed on cotton bagging and iron.<sup>1</sup> Fuller of Massachusetts moved to reduce the duty proposed on iron, which was an increase of seven dollars and a half per ton. He declared that the increase would enhance the cost of the implements of husbandry and of the mechanic arts; but, of all classes, the ship-builders would suffer most from the pressure of this new burden.

Buchanan replied. For a time there was prosperity among those iron-manufacturers who resided some dis-

<sup>1</sup> Trimble of Kentucky said, during the debate, "So abundant was hemp in the Western country, that, if we impose only such duty as will give the farmer a fair minimum price, the farmers there will keep down the maximum to the minimum nearly, and Mr. Trimble pledged himself that the manufacturers of the West would supply the whole country with bagging at not exceeding twenty-two and a half cents per yard, if Congress would grant them protection, and that they would keep it down to that price. But, by laying a proper duty, the market must first be made steady in its character, so that the foreigner cannot destroy the hemp grower and the manufacturer both by excessive importations. Bagging would be sold cheaper as soon as hemp was allowed the same protection as was given to the Southern cotton."

tance from the seacoast, and in a neighborhood where a demand existed for all the iron they could manufacture. Foreign iron, before it could come into competition with theirs, must, in addition to the duty, pay the cost of transportation into the country. Such individuals, by the ruin of rival manufacturers, and the consequent destruction of domestic competition within their sphere, had become the monopolists of the neighboring markets. In this manner the former was compelled to pay a much greater price for his iron than he would if the protecting power of the government recalled into existence those rival manufactures which had sunk under its neglect. The manufacturers residing in the interior, who had no market except in the Atlantic cities, in addition to the cost of their iron, were compelled to pay transportation upon it to a market where it came into competition with that from Russia and Sweden; and, under the present tariff, they must be ruined if they continued in the business. In fact, most of them who were thus situated had been compelled to stop. A few years before, the traveller going into the mountainous districts of Pennsylvania would have found a great number of furnaces and forges in active operation. Their owners were not only prosperous, but they spread prosperity around them. These manufactories presented the best and surest market to the neighboring country for the products of agriculture. They diffused wealth among the people, money circulated freely, and the manufacturer and the farmer were equally benefited. The present aspect of those districts presented a melancholy contrast to that which he had described. It was a just comment upon the policy

of that country which would not afford a reasonable protection to its own domestic industry, and thereby gave to foreigners a decided preference in its markets. Although that portion of Pennsylvania abounded with ore, with wood, and with water-power, yet its manufactories generally had sunk into ruin, and existed only as standing monuments of the false policy of the government. The manufacturers and their laborers had both been thrown out of employment, and the neighboring farmer was without a market.

Webster denied that there had been such general distress among the manufacturing interests of the country. On the contrary, he believed there was no period in which the general prosperity had been better secured, or rested on a more solid foundation. In discussing the proposed duty on iron, he said the freight on iron had been offered, from Sweden to the United States, as low as eight dollars per ton. This was not more than the price of fifty miles of land-carriage. Stockholm, therefore, for the purpose of his argument, might be considered as within fifty miles of Philadelphia. Now, it was at once a just and a strong view of the case, to consider that there were, within fifty miles of our market, vast multitudes of persons who were willing to labor in the production of this article for us at the rate of seven cents per day, while we had no labor which would not command, upon the average, at least five or six times that amount. The question, then, was, should we buy this article of those manufacturers, and suffer our own labor to earn its greater reward, or should we employ our own labor in a similar manufacture, and make up to it, by a



tax on consumers, the loss which it must necessarily sustain.

In the Senate the bill encountered a determined resistance from the opponents of a strongly protective policy, and was materially modified in the direction of lower duties.

This tariff was disappointing to some interests: in several ways, however, there was progress. Cotton-manufacturers flourished, though dark days were mingled with the sunshine. For a long period after the law was enacted, the business receded from the former high-water mark. Many large capitalists who had been engaged in foreign commerce, of which the profits had greatly diminished, were led to embark in manufacturing. A supply was created beyond the demand, and prices fell; and many of the small establishments were compelled to sacrifice their products. Not a few cases occurred in which cloth was sold for less than the raw cotton used in making it. One consequence of the increased duties, therefore, was the erection of too many mills, causing excessive competition among the manufacturers, and ending in their financial embarrassment. In the mean time the consumer was getting his goods at a low figure.

Indeed, the prices fell so low, compared with what they had been,<sup>1</sup> that cotton goods were exported to some extent; although those opposed to protection claimed that these exportations were simply to complete the assorted cargoes which must be taken in order to make voyages of that nature, which were chiefly to South America, successful.<sup>2</sup> Notwithstanding the fall in the price of the

<sup>1</sup> Dem. Rev., vol. ii. p. 43.    <sup>2</sup> Lee's Report, N. Y., 1823, pp. 25, 26.



manufactured product, it was not in proportion to the decline in the price of cotton. It must be added, too, that the diminution of prices was due in part to great improvements in machinery.

When Simon N. Dexter, a leading cotton-manufacturer, was examined before the committee of manufactures in 1828, he was asked why he was enabled to sell coarse cottons so much lower than they were sold a few years before? was it owing, in any considerable degree, to the increase of capital, of skill, the perfection of machinery, and to the diminished price of cotton? to which he replied that it was owing to the improvement in machinery, the reduced price of raw cotton, and to the increased skill of manufacture.<sup>1</sup>

When he was asked if the continuation of the minimum duty on coarse cotton goods was not the only security on which the manufacturers relied for continuing their operations, he answered, "I cannot say that it is. I think the manufacture of coarse cottons in this country is now so well established, that we could make them, if the present premium was reduced. I think, if the present premium was repealed, that the foreign cottons of this description would for a time come in, and would greatly injure, for a while, all our manufacturers; but this would be done at a loss to the foreign manufacturer. Some of our manufacturers would be able eventually to sustain themselves, because they can afford the article now as cheap as it can be afforded from England. This reduction would, however, create a contest between the American capital invested in these manufactures, and the

<sup>1</sup> Mallory's Report, No. 115, 20 Cong., first session.

foreign, which would, in my opinion, ruin some of our establishments, and compel them all, for a time, to sustain themselves at a loss." The opinions of Dexter were confirmed by other manufacturers. On the finer goods, it was thought that perhaps a slight addition to the duty was needed to compete successfully with foreign countries, but otherwise they sought no further protection from the government.<sup>1</sup>

<sup>1</sup> In a report on the production and manufacture of cotton, at the New-York Convention in 1831, it was affirmed that the kinds of goods which constituted the staple manufacture of this country were not made elsewhere; and the committee who made the report believed they never could be produced so advantageously as at home. The price of the coarse and heavy fabrics to which the attention of the manufacturers was in the first instance necessarily directed, fell, in the fourteen years from 1816 to 1830, two-thirds; while that of the raw material declined, notwithstanding the immense increase of production, only one-half. The result was entirely attributed to the increased skill of the manufacturers, and to competition among themselves. It might be affirmed, and rigidly proved, they said, that sheetings could at that moment be made at a less price in the United States than in any other country. Of what necessity, then, it might be asked, was the protecting duty of eight and three-quarters cents a square yard? The committee answer thus: "1st, That, if the position here advanced be correct, the duty, so far as these goods are concerned, cannot operate as a tax, and that the effect of repealing it would be to excite a foreign competition, which, however ruinous to the importer, who would ultimately be driven from the market, would, in the mean while, produce great confusion and distress at home; 2d, That the cotton manufacture has doubled itself within five years, extending gradually to the finer goods, which require more skill and less of the raw material, and which, consequently, are less protected by the existing system of a minimum duty. As competition increases, it may be expected that finer and more elaborate textures will be attempted. We affirm that the pledges of the manufacturers have been fully redeemed by the existing low price of coarse goods, the only ones contemplated in the enactment of the tariff of 1816, and that the same result will follow in fine goods, if the protection now extended to them shall be continued." — p. 10.

Another consequence of this law was, that influential men in New England invested in these enterprises, and they became upholders of the protective principle. Said Webster, in the Senate, in 1828, "Nothing was left to New England, after the Act of 1824, but to conform herself to the will of others. Nothing was left to her but to consider that the government had fixed and determined its own policy, and that policy was protection."

The paper-manufacturers at this time were in a very flourishing condition. A paper-manufacturer was asked, "Are the prices of paper lower now than formerly, and, if so, is this owing to importations, or to domestic competition?" to which he answered, "The price of some kinds of paper are lower than formerly: other kinds bear about the same prices, or perhaps those of the best quality are a shade higher than they were eighteen months ago. I conceive the prices are regulated now wholly by domestic competition."

Iron-manufacturers, too, regarded the future with greater hope. Most all kinds of iron were produced at some profit, although prices had fallen below the mark which existed a few years before. The duty on nails was declared to be "ample." One manufacturer said, that, during the late war, several very important establishments were erected, and for a time they flourished. In 1816, and for several subsequent years, their condition was reversed. Within the last two or three years, with two exceptions, they had revived. Some new works, also, had been erected. On hammered, bar, and sheet iron, a higher duty was deemed expedient, and also on rolled and slit nail and spike rods. There was a kind of hammered iron,

resembling spike-rods, imported from Russia, which interfered with the nail and spike rods, and affected their prices. The revenue laws were evaded by entering it as hammered iron. An increase on this article was deemed expedient, or provision made to prevent the evasion of the existing revenue laws by placing it on the footing of nail and spike rods.

Another favorite object of protection by the government had been sail-duck. This at first was imported mostly from Russia, and was made either of flax or hemp. But after a time the experiment was tried in this country of making it from cotton, and with so much success as to endanger the market to the foreign manufacturer. It was soon found to be much better than either hemp or flax, and its production rapidly increased. Russian and English manufacturers sought to imitate it, and sell the imitation at a lower price; but, in the end, the cotton was so superior, that it was very generally desired.

The manufacture of glass was also in a sound way. Domestic competition had reduced the price, but no further duties were needed nor desired.

The worst defect in the tariff law of 1824 related to wool and woollens. The object of the law was to encourage the growth of wool, as well as the manufacture of it. It was clearly enough seen, that, if the manufacturer did not prosper, the wool-grower could not. But the duty on wool was too high in proportion to the duty on woollen goods; and consequently the price and quantity of domestic wool fell off, because manufacturers would not engage in the business.<sup>1</sup> The prices of woollen goods had

<sup>1</sup> 34 Niles, pp. 1-18. 33 Ibid., p. 434.



fallen so low, that wool-growers despaired, and, in 1827 and 1828, began to kill their sheep. Others continued to raise them, hoping for a favorable change in the law, whereby the industry would revive and become profitable. For two years, under the new tariff, wool-growing was profitable, but not after that period. The price declined; and yet the manufacturer was not able to make and sell goods, except at a loss.

The chief hinderances were domestic competition and increased importations. With the new tariff there was a considerable increase of factories, which, of course, intensified the heat of competition; but the more potent cause was the importation of foreign woollens. These were pushed into our market, mainly because there was a surplus of stock which must be sold.<sup>1</sup> The condition of woollen manufactures in England was fearful. An overseer in the large manufacturing village of Saddleworth writes to his brother in America, "If you were in this country, you would scarcely hear the sound of a woollen-shuttle in all the neighborhood; and, take all Saddleworth through, you will not find one shuttle out of forty going."<sup>2</sup> It was indeed one of the greatest convulsions the mer-

<sup>1</sup> Nathan Hale, in his able review and criticism of the "American System," Boston, 1829, said it would not be denied that one of the causes of the recent convulsion "was the overdoing of all branches of trade in Great Britain; and among its most disastrous effects were a sudden stagnation of demand for all objects of trade, and a consequent unprecedented fall of prices. Merchandise became a drug; and, as might be expected under these circumstances, the principal articles of British manufacture, woollen and cotton goods in particular, were thrown upon foreign markets, not at prices regulated by the cost of manufacture, but at prices dictated by the then desperate state of trade." — pp. 41, 42.

<sup>2</sup> For entire letter, see 33 Niles, p. 227.

cantile world had ever known, and, since the date of the South Sea trouble, probably had not had a parallel. "The effect of the explosion," says Hale, "was the sudden depression of prices; and this effect was seriously felt by the manufacturers of woollens, as well as by many other classes of men in trade in this country. Against such losses," he maintained, "the government can afford no relief: it would be in vain to prevent their recurrence. To undertake to indemnify one class who suffered loss from this source would be to do gross injustice to the whole community."<sup>1</sup>

Dupont, a very prominent woollen-manufacturer of that day, told a committee of Congress that formerly the importations of woollen goods from England were made by our merchants in the regular course of trade. Now these importations were mostly made on British account, and a very large share of them for the following causes: first, their home market was overstocked, and they had rather sell the surplus at a loss than to keep it on hand; and, secondly, the British manufacturer had on hand articles not suited to his home market, or which were of inferior quality, or which were made from secondary materials, and which he pressed off his hands because they would not sell at home, or because he would not hazard the reputation of his factory by putting them into those markets. Those goods, brought to our markets for these causes, and sold at the auctions for what they would command, regulated the price of our own woollen goods.

There were other causes prejudicial to the American

<sup>1</sup> American System, p. 41.

manufacturer.<sup>1</sup> One was the change in the duty imposed by England on her wool. When the tariff law of 1824 was enacted, the duty on wool imported into England was sixpence sterling per pound. That very year the duty was reduced to one penny. During the debate in the British Parliament, Mr. Robertson, a commercial member, "begged leave to call the attention of the House to the state of America," in order to show the expediency of taking off the duty on raw materials. Having shown the rapid growth in the population, "which might be expected to amount to sixty millions in forty years," he drew the inference that here was an immense mart for English low-priced cloths, of which England might avail itself, if the impolitic duties on the raw material were repealed. The next year, even this low duty was reduced one-half on all wool costing less than a shilling per pound. It was this action of the British Government which led Edward Everett to declare, in a public speech, that unless the American people thought it was just and fair that the laws passed by the American Congress for the protection of American industry should be repealed by the British Parliament, for the purpose of securing the supply of our market to the British manufacturer to the end of time, it was the duty of Congress to counteract this movement. It was incumbent on Congress, he continued, as the very least they could do, to raise the duty of 1824 fifty per

<sup>1</sup> A very striking picture of the difficulties surrounding the American woollen-manufacturer was drawn by A. M. Schenk, for a long period one of the most prominent woollen-manufacturers in the country, in a letter published in the *National Journal*, Washington, March 24, 1828. See letter on *Wool and Woollens*, 34 Niles, p. 76.

cent; for so much had British legislation lowered it. Had this been done, he maintained, the foreign article would not have been enhanced to the consumer beyond its old price, because the addition to the duty would have been taken from the cost.<sup>1</sup>

The most powerful adverse influence, however, to American manufacturing, was the auction system. Previous to the war of 1812 there were but two or three auction establishments in New-York City, and their business was inconsiderable. It was then considered a discreditable mode of selling goods, and various methods were practised for concealing the owner's name. Sales on account of underwriters, unsalable goods remaining in the hands of importers at the end of a season, and occasional visits of English agents with consignments from English manufacturers, were the chief sources whence auction goods were derived.<sup>2</sup>

During the war, when goods became scarce and dear, the auction system rapidly grew to large proportions. As goods could not be imported direct from Europe, they were obtained through neutral channels, or from Canada; and several houses were often jointly interested in the same importation. For this reason quick sales were desirable; and consequently package-sales at auction were introduced as the most expeditious, as well as the most profitable, mode of disposal. The owners were frequently astonished at the prices obtained at auctions, and doubt-

<sup>1</sup> Harrisburg Convention, p. 22. For history of woollen industry from war of 1812 to 1828, see Niles's Address at Harrisburg Convention, p. 18 et seq.

<sup>2</sup> Remarks on the Auction System, p. 6.



less buyers paid far more than they would if auction-sales had been prohibited. With the return of peace, large quantities were imported, when neither the city nor the country stores had any stock left: competition consequently, among purchasers, was great; and goods sold at high prices.

The auctioneer at this time usually cashed the sales: thus the importer was able to remit the money immediately to Europe for more goods. The facility which auctions furnished for forcing goods into the market, beyond the actual wants of the people, contributed in a great degree to that wide-spread ruin which desolated our country in 1816. Merchants, finding that they could sell their goods at auction with such facility, and be ready for another venture so soon, ordered twice as many as they would have done, had they continued to sell all their goods in the old way. This extraordinary demand ceased late in the autumn of 1816, after the merchants had laid in their stocks. Though prices began to decline the following winter, yet the auctions were crowded from day to day, till many articles fell so low, that they paid little more than the duties. This prostrated almost every importer and jobber. Scarcely one of the former class escaped, and those of the latter class who weathered the storm were for a long time seriously crippled.

During this time of distress no orders were sent to Europe for goods. They accumulated, therefore, until the manufacturers were obliged to seek a market for them. Agents were accordingly sent to the United States. They found that the only mode of sale open to them was by auction, which afforded great facilities. The

auctioneers became their bondsmen for the duties at the custom-house, as the law required that the sureties should be American citizens. The auctioneers, also, by making immediate advances on these importations, enabled the manufacturers to consign more goods, almost in course of post. Auctioneers increased in number, wealth, and influence. They were directors in nearly every bank in New York, and could thus obtain discounts to an indefinite amount, and control the market. The first flight of English agents originated in necessity, to enable them to sell their surplus stock, and was afterward continued for profit. In 1817 and 1818, when the depression mentioned had subsided, some articles became scarce. Agents were now more expert, and by constantly attending public sales, and becoming perfectly acquainted with the market, kept their friends advised of every change. So soon as any article sold at a profit, it was instantly ordered, and transmitted with great rapidity.

The American importer continued to make attempts to import goods, but these were nearly always unsuccessful. How could it be otherwise, when the ship which brought goods that had been specially ordered also brought, from the same houses, other similar parcels that were sent to the auction-room almost before the importer had received his goods from the vessel? The manufacturer took advantage of the information furnished by his American correspondent, and, after filling his order, also supplied his customers.<sup>1</sup>

<sup>1</sup> Remarks upon the Auction System, p. 11. The author of Remarks upon the Auction System, which is replete with facts showing the disastrous effect of it to American importers, among his many illustrations of

Between 1810 and 1828 the goods sold in this way in New York amounted to \$225,000,000.<sup>1</sup> By the instrument of auctions the tariff barrier was weakened, and well-nigh destroyed. Manufacturers regarded the auction system with grave apprehension. They sought to tax auction-sales in order to diminish their force and frequency. They were taxed by the State of New York; but a national tax was ardently desired by many. Pamphlets and speeches constantly appeared in condemnation of the system, while occasionally a defence was interposed. Opposition to the system raged with great fury for many years.<sup>2</sup>

Another mode of breaking down the tariff barrier was by entering goods at fictitious prices. How extensively

the fact stated in the text, adds the following: "In 1825 the house in which I am a partner imported, in conjunction with a friend, two thousand pieces of a certain description of goods. The patterns had been sent by a previous conveyance, with an understanding that the goods would immediately follow, and, moreover, that the style was to be reserved for our sole use. The goods arrived; but the same vessel brought nearly five thousand pieces of the same description of goods to a certain house in town, the greater part of cloths inferior to ours, and charged at five to eight shillings sterling per piece lower. These goods were sold at auction; and the result of the whole was simply this: we lost nearly two thousand dollars by our adventure, and our English friends gained the same, or a greater ratio, by theirs." The author adds, "Without the rapid mode of selling by auction, this fraud could not have been perpetrated."—p. 12.

<sup>1</sup> Remarks upon the Auction System, p. 52.

<sup>2</sup> The two ablest pamphlets against auctions were, perhaps, Remarks upon the Auction System as practised in New York, etc. (N. Y., 1828), and Reasons why the Present System of Auctions ought to be Abolished (N. Y., 1828). The ablest production on the other side was an answer to the last-mentioned pamphlet, and was entitled An Examination of the Reasons why the Present System of Auctions ought to be Abolished, etc. (Balt., 1829).

this was done we have no precise evidence, but there are good reasons for supposing that it was done very frequently. "It was a common custom, and one well understood by merchants, that many foreign importers" residing here, and who sold their goods mostly by auction, were "in the constant habit of receiving two invoices of each parcel of goods." One of these was "made out at a very low rate," and was used to enter the goods: "the other contained the actual cost." Of course, the government was injured by losing the revenue justly due to it, while American manufacturers and importers suffered in the ways mentioned.<sup>1</sup>

Even when the foreign manufacturer entered his goods at their cost to him, the price was about sixteen per cent lower than the prices of similar goods entered by American importers.<sup>2</sup> This difference was great enough to work serious injury to the American manufacturer and importer.<sup>3</sup> The foreign importers, too, by importing so heavily, fixed the general rule of valuation; and the American invoice, though ten to fifteen per cent higher, was an exception. By thus importing directly without adding intermediate profits, and fixing the cost of goods on the basis established by foreign manufacturers, the

<sup>1</sup> See Remarks for numerous illustrations.

<sup>2</sup> Proceed. Gen. Convention at Harrisburg, 1827, pp. 47-51.

<sup>3</sup> "Not many years since, the dry-goods merchants were among the most numerous and important of the mercantile class. At this moment the great majority of them are no longer importing-merchants, but the agents of British manufacturing houses; and our most intelligent merchants calculate that at least two-thirds, both of our export and import trade with Great Britain, is in British hands, and on British account."— *Observations on the Report of the Committee of Ways and Means, made at Wash., March 12, 1828*, p. 23.



protection which our government sought to maintain through the tariff was overcome.

It was maintained, too, that the graduated system was injurious. As the duties grew higher, the temptation to import increased, because there was a tendency to enhance prices beyond covering the additional tax.

Soon after enacting the law, a writer predicted, "Our woollen-manufacturers, after next month, will have only twelve and a half per cent in their favor. In June, 1826, an additional five per cent will be levied on wool; and should the exchange be reduced, an event highly probable, our woollen manufacture must sink under the competition of European fabrics."<sup>1</sup> Subsequent events proved the truth of his prediction. Unlike many a prophet, he had built upon unquestioned facts. In the first place, wool constituted nearly one-half the value of the cloth produced; and the price of domestic wool was regulated by the price at which foreign wool could be imported and sold under the existing duties. The country supplied about one half the quantity needed: the other half was imported. The price of domestic as well as foreign wool was fifty per cent dearer in the United States than in England. The duty thereon was thirty per cent; on woollen cloth, thirty-three and a third per cent. The greater bulk of raw wool rendered the freight and charges on it nearly equal to the difference of duty between cloth and wool. The reader will see, therefore, as the value of the wool constituted one-half of the value of the cloth, and as the price of the raw material was fifty per cent dearer in the United States than in Eng-

<sup>1</sup> New York Statesman. See Thirteen Essays, p. 21.

land, the woollen-manufacturers lost at once the benefit of one-half the duty on cloth. The duty on cloth, therefore, was virtually reduced from thirty-three and a third per cent to one-half that amount.

Even the limited protection thus given was further reduced by the use, from necessity, of other foreign materials in the manufacture of cloth, which were subjected to heavy duties. Two of these articles, olive-oil and castile soap, were taxed fifty per cent. Using such costly materials, how could the domestic manufacturer expect to compete successfully with those who could buy them at far lower rates? Blind, indeed, was the government, in taxing raw materials, like castile soap, olive-oil, and other things not made at home, but needed in manufacturing, if truly desirous of encouraging American manufacturers. Looking on the face of this legislation, the good will and enmity of the government toward the manufacturers were about equally mixed. It protected with one hand, and smote with the other. But, in the interest of truth, it ought to be said that such incongruous work was the product of ignorance, rather than jealousy or ill will.

Weighted so heavily on every side, in 1827 the manufacturers concerted measures for their relief. At nearly every session of Congress since 1824, the need of altering the tariff had been made known to Congress; but nothing was done. In the summer of 1827 a convention of the friends of protection met at Harrisburg to consider their situation. The object of the meeting was to concentrate facts, and to agree to a tariff of duties which should be equal in its benefits and burdens, so far as

equality could be attained, in all parts of the Union. This body was composed, for the most part, of prominent manufacturers, and the leading advocates of protection. Politically, a large majority of the members were the friends of the administration, Mr. Adams, and were in favor of his re-election; but there were others, also of high standing, who were openly and decidedly for Gen. Jackson. The great object of the convention was to reconcile, if possible, the conflicting interests of the friends of protection. This was by no means an easy task. Massachusetts wished to raise the duty on imported cotton and woollen cloths, but, at the same time, desired to obtain her hemp and her molasses where she could buy cheapest, whether the former was grown in Russia or Kentucky, or the other was purchased in the West Indies or Louisiana. On the other hand, it was quite immaterial to Louisiana, whether she purchased her cotton and woollen cloths at Waltham (in Massachusetts) or at Manchester (in England), provided she could obtain them as cheap at one place as the other. If the manufacturer of woollen cloth were protected from foreign competition, the wool-grower insisted that he, too, ought to be protected from the competition of the grower of coarse wool in Smyrna, and the producer of fine wool in Europe. The convention at Harrisburg, however, in a spirit of mutual compromise, agreed to a tariff of duties which was satisfactory to the several interests.

Jackson, during the presidential canvass, wrote a Janus-faced letter, declaring that he was in favor of a "judicious tariff," which, in the North and West, was interpreted as meaning protection, but in the South was

construed differently; for, said the politicians in this section, no tariff can be judicious unless it be for revenue only. Hammond, the biographer of Silas Wright, says that "the answer of Gen. Jackson was probably drawn by some wily politician; for it does not accord with the frankness of a soldier, nor especially with the honest and fearless independence of Andrew Jackson."<sup>1</sup>

Jackson was elected. A majority of the House were opposed to protection; and they elected a speaker, Mr. Stevenson of Virginia. He, however, selected for chairman of the committee on manufactures Mr. Mallory of Vermont, who was a national Republican. He possessed considerable talents, great candor and industry, and had served in the preceding Congress as chairman of the same committee. But the majority of the committee were opposed to Mr. Mallory and to protection. Silas Wright was placed next on the committee, who had hitherto acted with the protectionists; but doubtless, in placing him there, Mr. Stevenson had learned of Wright's conversion through Van Buren, who knew the opinions of men immersed in politics better than any man of his day.

Wright, and a majority of the committee, were not willing to adopt the tariff recommended by the Harrisburg convention, without further investigation. A resolution was therefore offered in the House, emanating from the same committee, to send for persons and papers. This resolution encountered strong opposition, chiefly from the protectionists, who declared that the chief object was to delay and prevent action during the session. On the other side, it was affirmed that the Harrisburg

<sup>1</sup> Polit. Hist. of N. Y., vol. iii. p. 101.



convention had probably presented only a part of the facts relating to the subject, and that a knowledge of all of them was necessary in order to act intelligently thereon.

When the investigation had been completed, Mallory was in favor of reporting a bill embodying the views of the Harrisburg convention; but Wright, and a majority of the committee, differed from him. Wright favored a reduction of the duty on woollen cloths, and an increase on wool. Mallory contended that such a change in the law would prevent the working of the woollen-factories without loss; that, in the event of their suspension, the domestic market for wool would be destroyed; that, on the contrary, the encouragement to manufacture woollens would increase the demand for wool, and, of course, increase its price in the market; and that therefore the scheme advocated by Wright would, in the end, be fatally injurious to the wool-grower himself.<sup>1</sup> Wright favored an increase of duty on hemp, flax, iron, and molasses, and a repeal of the drawback on molasses, which had been allowed when it was distilled into spirits, and

<sup>1</sup> "It is an admitted fact, that our manufacturers consume of our native wool to the amount of about twelve million dollars annually, and that they have created such a demand for that article, that its price is now actually fifty to seventy-five per cent above the price of British wool. This amounts to from four to six million dollars, and places that portion of the supposed tax in the pockets of the farmer instead of the manufacturer; for it will not be contended, that, if the home manufacture be relinquished, the price of wool will be sustained. In such an event, he must look abroad for a market. That market can only be found in England; and he must sell it as much lower than British wool as the cost of transport to that country." — *Observations on the Rep. of the Com. of Ways and Means*, Phil., 1828, p. 24.

in that form exported. The bill, while highly favorable to the South and West, was very strongly opposed to the interests of New England. Although Mallory reported the bill, he did not like it; and its defence fell to Wright, whose hand in framing it was visible in every line. The wool-growers of New York formed a considerable part of his constituency; and, if he could get the tariff on wool raised, he was sure of satisfying them, even if he did slaughter New-England interests. His wool-growing constituency did not know enough to perceive that protection of their interests was useless, unless woollen-manufacturers also were protected; for the policy adopted by Wright would have hastened the extinction of the woollen industry. In that event, the wool-grower would have been entirely at the mercy of the foreign manufacturer for his wool-market,—a result which would inevitably have led to lower prices of the product; and this effect, no tariff, however ingeniously constructed, could have prevented.

The debate was very elaborate; and more ability was evinced, and reasons and facts presented, than during any previous or subsequent discussion of this subject. We can only glance at the leading points, some of which are still worthy of study. In Mallory's speech was an answer to the objection that all duties on imports were taxes on consumers. This was true, he admitted, as to those articles which were exclusively procured from abroad: it was untrue as to such articles as were produced by domestic industry, nearly or wholly sufficient to supply the demands. It was supposed that we produced cotton fabrics to the value of thirty millions. A great

proportion were valued at sixteen cents and under, the square yard. The duties and charges would be about ten cents. Remove the protection, and, according to the rule that duties were a tax on the consumer, we should be furnished with the fabric at four cents the running yard. The absurdity was apparent. Take a fabric valued at nine cents the square yard: the duties and charges would be about the same as previously stated. According to the rule, this fabric could be afforded to the consumer for nothing. Take nails: the duty was five cents. The average price might be seven cents in market. The consumer, by the rule laid down, should have them for two cents a pound. The duty on cheese was nine cents per pound. The average value in market was not over seven cents. If duties on the foreign articles were a tax on the consumer, he was, in equity and good conscience, entitled to two cents for every pound he ate.<sup>1</sup>

<sup>1</sup> Richard Rush maintained, that, "where an article is extensively manufactured in the country, no tariff has ever produced any perceptible effect upon the price of the article. . . . The power of production in the world is much greater than the capacity for consumption; and hence there is a constant tendency in the supply to exceed the demand. Hence the uniform tendency to a reduction in the price of all articles, especially those which the ingenuity and power of man can multiply indefinitely. This being one of the laws of nature, the permanent effect of a tariff of ever so great a per cent never can be to raise the price of an article of domestic production. The tendency of a tariff is to keep the market at its present price by excluding a portion of the foreign article until the domestic supply comes up to the demand, which can never be at a very distant period (unless there is some natural impediment to the production in that particular country); and, when this comes to be the case, then prices commence again to fall. The different tariffs passed by Congress have never afforded any encouragement to domestic manufactures by raising the price of the domestic article above what it was at the time the tariff was



J. S. Stevenson of Pennsylvania, who was a member of the same committee, supported the bill; and several points in his speech may be profitably considered. One of these related to the time when it was proposed the bill should take effect. The committee fixed the 30th of the following June, not merely because this time had frequently been adopted, but because it was believed, that, if any bill were passed that session, the time between its passage and that for its going into operation would not be sufficient for notice of the fact to be transmitted to Europe, and for extensive importations to be made, ruinous to the manufacturing interests.

The committee were convinced that the most destructive principle of the tariff of May 23, 1824, was that it imposed only part of the duty on woollens on the 30th of June, 1824, and held out an extraordinary premium to importation from that time to the 30th of June, 1825, when a further duty of three and a third per cent was to be levied. The consequence was, that, instead of the usual average supply of eight and a half millions, there were upward of twelve millions of woollens imported in 1825; and this produced, mainly, the great depression of 1826, and the destruction of some factories, and losses to others.

Referring to the modified duty proposed on steel, Mr. Stevenson declared, that, during the late war, it was impos-

passed. These tariffs have protected domestic manufactures by excluding a portion of the foreign article, and thereby enabling the domestic manufacturer to sell his products at present prices, instead of selling them at reduced prices. The effect of a tariff is to prevent prices from falling so fast as they would fall but for the tariff. No tariff for protection ever has been, or probably ever will be, high enough to enhance the prices of the domestic product." — *The American System*, Balt., 1828, pp. 23, 24.



sible to procure what was essential for the defence of the nation in forming arms; and it rose in price from fifteen to seventy-five cents per pound. It was the special policy of England, who engrossed the principal manufacture, to prevent its introduction into this country, even by smuggling.

The increase of duty on molasses created strong opposition. Mr. Hunt said it was a fact well understood, that the sugar-plantations of Louisiana afforded a greater amount of profit than any other branch of agricultural employment in this country. Since the year 1824, it was estimated that the production of sugar and molasses in Louisiana had been doubled; and the produce of the last year had swelled to the prodigious amount of eighty thousand hogsheads of sugar, and five million gallons of molasses. This business, therefore, required no additional aid or stimulus from the government. It did not, like many other kinds of employment, present the melancholy spectacle of languishment, ruin, and decay, for want of protection. The duty upon this article was manifestly unequal in its operation upon the different sections of the Union. The principal part of the foreign molasses was consumed in New England and New York, and a few of the States bordering on the Atlantic; while, in the West, its consumption was small. The tax was not only principally paid by the Eastern States, but what rendered its operation still more severe and unequal was, that in those States the poorer part of the population paid the greater portion of the tax, as they consumed, in proportion to their numbers, larger quantities than the rich.

There was another interest of long standing — that of

distilling molasses — which would necessarily be ruined by doubling the duties, and repealing the drawback which was now allowed upon the exportation of the spirits thus distilled. Our commerce, consequently, would be curtailed; and those on whom the losses and ruin would fall, by the interruption of this commerce, were not the large capitalists, but laborers, mechanics, and men of moderate fortunes, who had embarked in the various branches of business connected with this trade.

Mr. Claiborne of Virginia opposed the bill, especially the amendment offered by Mr. Mallory, which was substantially the bill desired by the Harrisburg convention. There had been four revisals, — in 1789, 1816, 1820, and 1824. These had been invariably effected by compromise. To break into the system so frequently, and extend the duties, produced jealousy, dissatisfaction, and strife. It kept the price of labor and property constantly fluctuating; it unhinged the confidence of the people in the laws; and it disordered the circulating medium of the country. The incessant advance in duties enticed people to embark in manufacturing establishments with an impression that the government would sustain them, at all events, and make their labor productive. The course pursued by Congress in 1824 had led to this renewed effort to increase the duties. It was impolitic, at all times, for the government to interfere with the industry, labor, and enterprise of the citizen. If citizens were seduced, by premiums, into particular pursuits, could those premiums be withdrawn without a breach of faith? He held it to be good policy to let labor, commerce, and enterprises alone. To the system of exclusion he could never agree.

McDuffie of South Carolina, one of the ablest and most eloquent members of the House, opposed the bill. "There is no part of this whole scheme of delusion," he said, "which so strikingly illustrates its true genius, and so clearly demonstrates its injustice, as this combination of double duties, — first taxing the raw material, and then taxing the manufacture in a twofold degree, upon the ground that you have taxed the raw material. Upon what 'human principle' do you lay a tax upon raw wool? Are not all the other classes of the community called upon to sustain an immense weight of indirect taxation in order to build up our woollen manufactories, for the professed purpose of providing a domestic market for raw wool? and are we to be told that the wool-growers, who are to derive the whole incidental benefit of this system, will not consent to the duty on woollen manufactures laid for their benefit, unless you bribe them to it by a direct bounty on raw wool? Was there ever exhibited in human legislation a grosser inconsistency? And, like all the other impostures by which the cunning and artful few have made the credulous many subservient to their selfish purposes, this system has called into its service certain pretended magical powers, by which its worshippers are taught to anticipate golden visions of prosperity and wealth for themselves and their country. No enlightened and commercial nation ever prospered by attempting to control the course of industry by legislative bounties or restrictions."

When the vote in the House was taken, there were a hundred and five in favor of the bill reported, and ninety-four against it. Every member south of the Potomac



voted for the original bill in preference to Mallory's amendment. What led them to act so unanimously in opposing it? Hammond,<sup>1</sup> Wright's biographer, says, "The bill, though the duties were so high on some articles as would, it was believed, wholly exclude their importation from abroad, bore with relentless and almost ruinous severity on New England. The high duty on coarse Smyrna wool, which was used in the manufacturing of negro cloths, would, it was apprehended, exclude its importation, and deprive the woollen-factories of that lucrative branch of their business; the price of hemp, iron, and cordage, it was feared, would be so enhanced as to greatly check the business of ship-building; and the duty on molasses — an article for the consumption of which the Yankee nation have long been celebrated, great quantities of which were by the Eastern people distilled into a species of spirit called New-England rum, and exported — was regarded, and perhaps justly so, as peculiarly oppressive to the eastern section of the Union. The South wished to defeat any bill for protection, and were determined in a body to vote against the final passage of *any* bill which favored the protective policy. If, therefore, the bill reported by the committee on manufactures could be made so unpalatable to the members from New England as to induce them to vote against it, their vote, together with the united Southern vote, would cause its rejection."

In the Senate, Benton advocated the continuance of the duty on molasses as an indirect encouragement to the farming interest. It would enable the distillers of the

<sup>1</sup> Polit. Hist. of N. Y., vol. iii. p. 109.



Western country to compete with those in the Eastern States, who distilled from molasses. This feature of the bill gained the support of the senators from Kentucky, but encountered the opposition of Senator Parris of Maine, who declared the effect of the bill would be to diminish materially the importation of molasses: indeed, the avowed object of the bill, he declared, was to diminish it for the purpose of making way for the molasses of the Southern, and the whiskey of the Middle and Western States. Such a result would destroy the West-India trade of New England.

Mr. Hayne of South Carolina declared that in this business, from beginning to end, the interests of the South had been shamefully sacrificed. The system of protective duties had created discordant feelings, strife, jealousy, and heart-burnings, which never ought to exist between the two different sections of the same country.

It was during this debate that Webster first became an advocate for protection. "The present measure," he said, "is pronounced to be exclusively for the benefit of New England, to be brought forward by her agency, and designed to gratify the cupidity of her wealthy establishments. . . . The opinion of New England up to 1824 was founded in the conviction, that, on the whole, it was wisest and best, both for herself and others, that manufactures should make haste slowly. She felt reluctance to trust great interests on the foundation of government patronage. But the Act of 1824 settled the policy of the country. What, then, was New England to do? Was she to deny herself the use of her advantages, natural and acquired? Was she longer to resist what she could no

longer prevent, or, seeing the policy of the government thus settled and fixed, to accommodate to it, as well as she could, her own pursuits and her own industry?"

Foot, of Connecticut, sought to amend the bill by taking off the duty from hemp, cotton bagging, molasses, and foreign distilled spirits. This amendment provoked sharp criticism, especially from Johnson of Kentucky, who inquired, if these articles were exempted from duty, what remaining interest had the West in this long-expected tariff?

Benton proposed to amend the bill by imposing a duty of twenty-five cents a pound on indigo. He declared that his object in doing this was two-fold,—first, to place the American system beyond the reach of its enemies by procuring a home supply of an article indispensable to its existence; and, next, to benefit the South by resuming the cultivation of one of its ancient and valuable staples. Another object in offering his amendment was to secure the support of the South-Carolina senators; and he succeeded in getting the vote of one of them.

The duty on sugar and molasses was long and ably debated; and, among other speeches, Benton made one replete with facts and inductions. He brought the fact to the surface, that, when the first tariff was enacted in 1790, brown sugar was rated at one cent per pound, and a gallon of molasses at eight cents, on the theory that a gallon of molasses was admitted to be equal in weight, and superior in saccharine, to eight pounds of sugar. The important fact, which was admitted, that four-fifths of the molasses imported into New England was consumed as

sugar, suggested grave questions to the American statesman concerning our revenue, the equal distribution of our taxes, and the preservation of a market for our domestic sugar and molasses.

Woodbury moved to amend the bill by inserting "on all manufactures of silks from countries this side the Cape of Good Hope twenty per cent *ad valorem*." The silks of India were paid for mostly in specie, and were brought in a few ships; while those from Europe were chiefly obtained in exchange for cotton, tobacco, and other staple articles of agriculture, and gave occupation directly to a much larger amount of tonnage. Moreover, the proposed tax was laid on a luxury, and the change was in exact conformity with the recommendation of the committee on manufactures in 1824; and the experience of three years had shown the benefits of the discrimination.

Many amendments were offered to the bill during the discussion; but it finally passed the Senate by a vote of 26 to 21, Hayne voting against it. The House finally concurred in the Senate amendments; and thus the bill became a law, — a bill which many have been pleased to call "a bill of abominations."<sup>1</sup> At the next session an unsuccessful attempt was made to repeal it. Wright was among the foremost in opposing its repeal.

This law marked top-high water in the history of American tariff legislation. The Act of 1816 did not protect enough; nor did the Act of 1824. The experiment of protecting was now to be carried to the highest point it ever reached.

Many opposed an increase of the duties, believing that

<sup>1</sup> May 19, 1828, 20 Cong., first session, chap. 55.



prices would be raised, and, consequently, that a heavier burden would be borne by the consumer. But importers were doomed to a very serious disappointment. Instead of getting more for their goods, they were obliged to sell them at a lower figure than before; and their losses, especially on those which were received after the Act went into operation, were very heavy,—so great, indeed, that they petitioned to Congress for relief. They desired to have the additional duties refunded on all goods received after the enactment of the law, which had been ordered previously to that event. A large number of the Boston firms declared in their petition to Congress, “Upon the passage of the Act, many persons supposed that those manufactures on which the duty was increased would immediately rise in the market, and command prices proportionate to the increase of duty; and, at the first view of the subject, such, perhaps, would appear as the natural result. Such, however, was not the effect of the tariff of May, 1828; for, instead of advancing, most if not all of the principal articles of cotton, worsted, and woollen goods, on which the duty was increased, rather declined than improved in price after the passage of the tariff Act of May, 1828, and would not, in many cases, bring so much in market as they had done the year previous under the old duty.”<sup>1</sup> Samuel D. Bradford, a very extensive importer, said, “Nothing can be more certain than that the extra duty laid in 1828 came, nearly all of it, out of the pockets of the importers.

“Some cases may have arisen where some kinds of goods

<sup>1</sup> Ex. Doc. No. 13, 22 Cong., second session.



sold, after the tariff was passed, higher than before; and certainly, if this had not been the case, many importers would have lost half their capitals. But the advance was on articles on which the extra duty amounted to an increase of forty and a hundred per cent; and it may be truly and safely asserted, that, in all such cases, the advance realized was only a fractional part of the extra duty imposed. The doctrine of Niles was," Bradford confessed, "for once verified, that laying a high duty often lowers the price of an article, and reducing the duty increases its value."<sup>1</sup>

What was the cause of this decline? Bradford said, "We are very sorry to find that any gentleman should have come to the conclusion that the decline in prices of goods in 1828 arose in consequence of overstocked markets, and that the cause of this overstock was an expectation, on the part of the merchants, that the duties would be increased, and that increased orders were sent abroad for goods in consequence of this expectation. The very reverse of this is the fact. The imports in the summer of 1828, and in the autumn of that year, were not large by any means, nor upon an increased scale; and it is a well-known fact, that very few persons believed that the tariff Act of 1828 would pass, until they read its passage in the public prints of the day; and we are confident, that, if any person believed it would pass at all, there was not a merchant in this country who ever conceived for a moment that it would commence its action

<sup>1</sup> We have given these somewhat lengthy extracts from Bradford, because, as he was a prominent free-trader, the reader will not imagine that his views were colored with protective ideas.

at once. All supposed that four to twelve months would be allowed for the merchants to prepare for so great or sudden a change, as had been done upon all previous occasions." No Boston importer was able to trace the cause of the decline in prices in 1828. They were sure, however, that it was not caused by an increased importation, founded on the expectation of a higher tariff.

They failed to obtain the relief sought, but they persevered. Even as late as the second session of the twenty-fifth Congress they renewed their efforts, but the committee of the House reported unfavorably: nor did they ever succeed in their object.<sup>1</sup> There was, in truth, no good reason for refunding the duties.

<sup>1</sup> House Report No. 494, 25 Cong., second session. Even in 1843 several importers sought to have the duties refunded on goods imported after the law of 1828 went into effect, but which were ordered previously to its enactment. They claimed that they did not have time to countermand the order after the law was passed, and thus prevent their arrival before its operation began.

The committee found that various cases of a similar character, amounting nearly to four hundred thousand dollars, had been presented to Congress between the years 1833 and 1836; and they appended a report of the Committee of Ways and Means on the subject, made in 1838. In this the committee say they "can see no just ground for relief. If the increase of duty did not produce a corresponding increase in the price of the goods in our market, according to the accustomed laws of trade, it must have been owing to extraordinary causes, and was the misfortune of the importers, and by no means the fault of the government. Other causes might have produced commercial prosperity in the country, which would have enabled these importers to sell their goods at an advance far above the increased duty; and the importations, instead of being a losing, would have been a very profitable speculation. It is a risk which merchants, in common with all others, must run; and it would be of evil tendency to make the government a guaranty for the loss upon such enterprises." The entire report is worthy of perusal.

Prices at this time fell, because production was very much enlarged, and the volume of money was contracting. The contraction was caused by the outflow of specie to pay for imports.<sup>1</sup>

The national debt was paid so rapidly, that a reduction of the tariff became necessary; and to that end, in May, 1830, Mr. Clay submitted the following resolution: "That the existing duties upon articles imported from foreign countries, and not coming in competition with similar articles made or produced within the United States, ought to be forthwith abolished, except the duties upon wines and silks, and that those ought to be reduced; and that the

<sup>1</sup> Nicholas Biddle wrote in April, 1828, concerning the scarcity of money: "1. There was a constant tendency in banks to lend too much money, and to put too many notes in circulation. 2. The increase of the mixed mass of money generally raises the price of all commodities. 3. When, therefore, you buy of foreigners more than they buy of you, as they cannot take the paper part of the currency, they must take the coin part. 4. The law of a mixed currency of coin and paper is, that when, from superabundance of the mixed mass, too much of the coin leaves the country, the remainder must be preserved by diminishing the paper. 5. We therefore get back our coin by diminishing our paper; and it will stay until drawn away by another superabundance of paper. 6. Such is the fact, and such is the circle a mixed currency is always describing."—*National Gazette*, Phil., April 10.

Ingham, in his annual report as secretary of the treasury, at the close of 1829, made some very thoughtful remarks on this subject: "A total revolution is taking place in many of the productive employments throughout the civilized world. The improvements in science and arts, no longer interrupted by war, have been directed to other objects, and have so increased the power of production, that the tide of prices, which had been long on the flood, is gradually ebbing, even under a depreciated currency. The relative values between labor and products have also changed, but are not yet adjusted. The depression of prices, falling unequally on the different species of property, is ruinous to many, and repugnant to the feelings even of those who do not really suffer. It may be long before a

committee on finance be instructed to report a bill accordingly." Hayne moved an amendment by striking out all after the word "countries," and inserting these words: "be so reduced, that the amount of the public revenue shall be sufficient to defray the expenses of government according to their present scale, after the payment of the public debt; and that, allowing a reasonable time for the gradual reduction of the present high duties on the articles coming into competition with similar articles made or produced within the United States, the duties be ultimately equalized, so that the duty on no article shall, as compared with the value of that article, vary materially from the general average."

Clay's resolution was warmly debated. His own speech was the ablest and most finished of all the speeches that he ever delivered on this question, which had no other more ardent and unflinching champion.

The resolution passed the Senate; and afterward the committee on manufactures reported a bill in conformity with it, which was laid on the table. Then the matter

proper adjustment of these values removes the evil; and until then the busy world will be agitated by the convulsive struggles of its various interests, each to avert from itself, and throw upon others, the impending adversity. The ramifications of these connecting and conflicting operations are so complicated, that it may be doubted whether any degree of intelligence, however free from the influence of special interests, could, by the exercise of a political power, materially lessen the evil. The active energies of man, stimulated by necessity, emulation, and love of wealth, are perhaps the agents most to be relied upon in maintaining a salutary equilibrium in the various operations of human enterprise. Every new disposition, therefore, of the money power, to be safe, should be gradual, and requires great caution to avoid increasing the unequal and irregular action which is so obviously prejudicial both to individual and public welfare."



slept until January, 1832, save that in 1830 the duties on tea, coffee, salt, and molasses, were reduced.<sup>1</sup>

<sup>1</sup> This Act was to go into operation at the beginning of 1832. Near the close of the previous year (1831) a large number of tea importers presented memorials to Congress, praying, that, if the duty on tea was reduced, the law should go into effect as soon as passed. They wrote to the secretary of the treasury about the matter, and he replied that he did not deem it wise to reduce the duties on tea. But he added, further, "It is believed, moreover, that the principal benefits of the proposed reduction would be conferred on the importer rather than the consumer. If, as is understood to be the fact, there is a small quantity of tea in the hands of the retail dealers, it might not follow that the prices either of that now in bond, or of that ordered for importation, would fall in proportion to the reduction; whereas the importer can suffer neither loss nor inconvenience from the operation of a law with a view to which his business has been regulated for more than a year past." — Sen. Doc. No. 4, 22 Cong., first session.

## CHAPTER V.

## TARIFF LEGISLATION.

1832-1842.

WHEN Clay introduced his resolution for the modification of the tariff, on the 9th of January, 1832, it was referred to the committee on manufactures. Dickerson of New Jersey was chairman. His report<sup>1</sup> was very brief, but is well worthy of consideration. The second inquiry proposed by the committee was, how far might duties be abolished or reduced, so that only enough revenue should accrue to defray the ordinary expenditures of the government after the payment of the national debt, and yet be so equalized as to render them efficient for the purposes of their imposition. These purposes were to raise a sufficient revenue for all the exigencies of the government, and to give an adequate protection to those manufactures which it was intended incidentally to protect by the imposition of the duties recommended. The committee maintained that the duties imposed on imports might be so reduced or abolished, that the revenue would not be more than adequate to the exigencies of the government, after the extinction of the public debt, that this reduction might take place largely by the total aboli-

<sup>1</sup> Sen. Doc. No. 116, 22 Cong., first session.

tion of duties on many articles, and their repeal in part on many others, not produced or manufactured in this country, or which did not require the protection of our laws, and also by reducing the duties on protected articles by such modifications and arrangements as should secure to them a support equivalent to that which the laws then afforded them. They believed that no ultimate equalization of duties could be adopted, without the most serious injury to the country, which should leave our manufacturers without adequate protection. They then made an estimate of reductions,—chiefly on coffee and tea, but including spices, fruits, indigo, gums, dye-stuffs, etc.,—amounting to \$5,660,000.

The secretary of the treasury had previously expressed his views on the subject, and so had the President, in favor of lowering and equalizing the duties. In the House two reports were made,—one by the Committee of Ways and Means, of which McDuffie was chairman, together with an adverse report;<sup>1</sup> and another by the committee on manufactures.<sup>2</sup>

The former report was elaborate, and favored a reduction of duties. McDuffie had long been zealously inclined toward a scheme of duties levied purely for revenue, and he had never failed to urge his views on every fit occasion. No one questioned either his sincerity or ability; but his logic was sometimes faulty, and led him to unsound conclusions.

It was conceded by every one that a reduction of the revenue was needful: the only question was, How should

<sup>1</sup> No. 279, containing also adverse report, 22 Cong., first session.

<sup>2</sup> No. 481.

the reduction be effected? We have already shown what was Clay's idea concerning the way of making it, with whom, essentially, all who were in favor of protection agreed. The views of the other party were expressed in McDuffie's report, and formed the groundwork of the bill reported, which imposed a duty of twelve and a half per cent *ad valorem* on all foreign merchandise, with the exception of such articles as were already admitted free of duty, or at a duty of less than twelve and a half per cent. The bill provided, however, for a gradual reduction of the duties on such imports as came in competition with domestic manufactures.

The committee declared, that, in adopting a general system of *ad valorem* duties, they had been governed principally by two considerations. The first was, that it levied the same tax on articles of inferior quality, consumed by the poorer classes, as it levied on similar articles of the very best quality and highest price, consumed almost exclusively by the more wealthy classes. While the poor man, for example, who consumed low-priced French wines, was made to pay fifty or a hundred per cent on their value, the wealthy man paid only twenty-five or fifty per cent on the value of the high-priced wines, which gratified his taste for luxurious indulgence. The same remark was applicable to tea, coffee, sugar, and, indeed, to almost every article then subject to a specific duty. The other ground of preference for *ad valorem* over specific duties was the perpetual fluctuation in the price of articles of the same denomination and quality. A fall in the price of an article increased the rate of taxation contrary to the intention of the Legislature. There was,



therefore, silent legislation by the revolutions of trade changing so entirely the enactments of Congress, that a duty had swelled to one hundred per cent, which was only twenty-five per cent when originally imposed. These were strong objections to the existing system.

The committee then considered very elaborately why taxes should be levied equally, and advanced the further proposition, that, "whether the duty be laid upon the export or the import, it is equally laid, in both cases, upon the production of the planter. There cannot be a more palpable and delusive error than the vulgar notion that imported manufactures, which have been purchased by the agricultural staples of this country, are foreign productions." The document throughout was a piece of reasoning evidently woven by McDuffie, and displaying his views with perfect clearness.

The minority report was signed by two members of the committee; and, if their reasoning was not so brilliant as that contained in the report of the majority, facts were more abundantly given. Among other propositions answered was the one relating to specific duties; namely, that a fall in the price of an article increased the rate of taxation, and therefore what was a reasonable duty, when first imposed, became oppressive as the value of the article diminished. The soundness of this objection, said the committee, might be shown by a few familiar examples. Cut-nails were formerly from ten to twelve cents the pound: there was a specific duty on them of five cents; and, under this duty, competition had brought down the price to six cents per pound, which was but little more than half what they formerly cost. According to the objection, this duty

might have been a reasonable one when first imposed, but was an odious tax, when, under its protection, we could get nails for nearly one-half the former price. Supposing the duty were a "tax" in the sense generally used, we ought to get them for one cent a pound if the tax were taken off: but it would be difficult to believe this; because under a lower rate of duty, and when our principal supply was from foreign workshops, we were obliged to pay ten and twelve cents for what our own workmen now turned out for six cents. Lead formerly cost from six to eight cents a pound: the duty was three cents, specific; and the present price was far below the former. Common window-glass formerly cost from ten to fourteen dollars a box: it was subject to a specific duty of three dollars and a half per hundred feet, and now sold at from four dollars to four dollars and a half per box. Brown sugar formerly cost fourteen dollars per hundredweight: it was subject to a specific duty of three cents per pound; and the present price was about seven dollars or seven dollars and a half per hundredweight, — about one-half the former price. The duties on certain kinds of iron were specific. Twelve years ago bar-iron sold at Pittsburg for a hundred and ninety to two hundred dollars a ton: under the protection of a specific duty, the price had fallen to a hundred dollars per ton. Hoop-iron formerly was two hundred and fifty dollars, and was now a hundred and twenty dollars. Sheet-iron was sold for eighteen dollars a hundredweight, and was now eight dollars and a half. Cotton bagging was subject to a specific duty: the price formerly was twenty-six cents, and had now fallen to sixteen cents per yard. The minimum duty on coarse

cotton goods was, in effect, a specific duty of eight cents and three-quarters a square yard: the price formerly was twenty and twenty-five cents. The like goods, or, rather, goods of much better quality, were now furnished for about eight cents a yard. If, therefore, the protecting duty of eight cents and three-quarters were a tax, to that extent the fabric ought to be obtained for less than nothing, if the tax were repealed. In truth, the people were not taxed, so the committee maintained, in these cases, unless it was by having their supplies furnished by American workmen,—in many instances, at one-half the price that was formerly paid for similar articles when our market was controlled by foreigners.

But even if the same duty were levied on all things, the minority contended, the burden of taxation would not be equally distributed. Insurance, transportation, and other charges connected with the moving of goods, were also a tax; and this was heaviest on those articles of merchandise containing the greatest weight and bulk. Therefore it would follow that the cheapest articles would receive the most protection; and the dearest articles, on which the heaviest duties ought to be levied, would pay the least. A hogshead of molasses would bear a heavy duty; and a piece of silk costing the same would bear a much lighter burden.

Both reports discussed the subject very thoroughly, while, in the third report, emanating from the committee on manufactures, of which John Quincy Adams was chairman, the subject was treated historically; and the views of the secretary of the treasury, and the bill which he had



prepared, embodying them in legal form, were fully considered.<sup>1</sup>

McDuffie, when reporting his bill to the House, declared, among other things, that "the people of the South were firmly impressed with the belief, that, under any system of duties by which the revenue was derived almost exclusively from imports, their proportion of the burdens imposed by Federal taxation would be much greater than it ought to be, according to the principles of the constitution which regulate the apportionment of direct taxes. Under these circumstances they thought they had a right to insist that the aggregate burden of taxation should bear as light as possible, and that not a dollar should be expended by the government that could be avoided by a rigid economy. If there were no such products in the United States as cotton, tobacco, and rice, would not the protective system be downright nonsense, — a mere impotent monument of human folly? How could the people of the United States obtain foreign manufactures when they had nothing wherewith to pay for them? And what could be more absurd and stupid than to prohibit the importation of articles which could not possibly be imported, even if there were no prohibition?

"It was against domestic, and not foreign, industry, that the manufacturers called for protection. But why did they need this very high and extravagant protection? It was because foreign manufacturers purchased with the productions of the Southern States, and because these were purchased by slave labor, which was four times as cheap, in the operations of agriculture, as the white labor

<sup>1</sup> No. 481, 22 Cong., first session.



of the Northern States. This was the true and only cause why the manufacturers required the government to interpose its powerful arm to keep down competition. It was, when properly considered, the greatest of all absurdities to suppose that it was against the English manufacturers that this protection was demanded. This was a mere flimsy disguise to cover the fraud, and conceal the outrage, perpetrated against the planters."

McDuffie advanced another argument, which he had originated two years before; namely, that an import duty was not a tax upon the consumers of commodities on which it was levied, but fell exclusively on the original producers of the exports given in exchange for the imported commodities. And inasmuch as our exports were composed principally of cotton, rice, and tobacco, the tax levied on imports imposed a very unequal burden on the planters of the Southern States. This theory was supported by the following reasoning. All commerce is an exchange of equivalents. The imports of a nation are precisely equal to its exports: the producer of the exports is therefore the producer of the imports; and a tax upon imports is equivalent to a tax upon exports, and falls upon the producer of them. In elaborating this argument, the importing merchant was represented as the mere agent of the planter, who was thus made to assume the character of a manufacturer of Manchester and Yorkshire woollens, who came in direct competition and rivalry with the cotton and woollen manufacturers of the United States. In this rivalry the Southern planter was obliged to maintain a competition on very unequal terms, inasmuch as his manufactures made in Manchester and

Leeds were subjected to an excise of forty per cent in the form of impost duty, while his Northern rivals brought their goods into market free from any tax whatever.

Appleton of Massachusetts answered this argument in a very few words: "It is perfectly true that the nation may be said to exchange cotton for manufactures; but it does not follow that the planters do so, for the planters are not the nation: and there lies the fallacy."

The bill was debated at great length; and the chief argument in favor of reducing the tariff was its unequal operation in the several sections of the Union, the Northern and Middle States prospering at the expense of the others. Bell, of Tennessee, fully developed this idea. "It is admitted that the uncommon prosperity of the tariff States has been produced chiefly by the protective policy, and that the continuance of their prosperity depends upon the maintenance of this policy. There are nine States which are supposed to be, in whole or in part, particularly benefited by this system: they are Maryland, Delaware, Pennsylvania, New York, Connecticut, Rhode Island, Massachusetts, and Vermont. Now, if these States owe their uncommon prosperity in a great degree to the protective policy, and this is admitted by the advocates of the tariff; and if the fact be that the other States of the Union do not prosper in an equal degree, but, on the contrary, are all comparatively depressed, and that the whole Southern section particularly is threatened with total impoverishment; and if this inequality has been produced by the policy of the government,—ought not the balance—the equilibrium of

prosperity at all events—to be restored if possible, and that as speedily as possible?”

On the other side, one of the strongest arguments pressed was, that the government, having encouraged people to manufacture by establishing a system of protective duties, could not withdraw this protection without a violation of public honor. Said Mr. Evans of Maine, “The people have a right to expect and to demand that their interests, their property, and their pursuits shall not be the subject of sudden, frequent, capricious, experimental change in the measures of the government.”

The bill was passed the 14th of July, 1832;<sup>1</sup> and the duty on tea and coffee was removed entirely when imported in American vessels, and the duty on many things was reduced from thirty to twenty-five per cent *ad valorem*.

From this legislation grew one of the most exciting events which had ever occurred in the history of the nation. South Carolina was so extremely displeased, that a convention, containing representatives of nearly all the great families of the State, met at Columbia the 19th of November, and five days afterward passed the celebrated nullification ordinance, the first declaration of which was the following: “That the tariff law of 1828, and the amendment to the same of 1832, are null and void, and no law, nor binding upon this State, its officers or citizens.” The second declaration was the logical sequence of the first: “No duties enjoined by that law or its amendment shall be paid, or permitted to be paid, in the State of South Carolina, after the first day of February, 1833.”

<sup>1</sup> 22 Cong., first session, chap. 227.

The action of the government with regard to these proceedings is familiar history, and need not be repeated. President Jackson was alive to the situation. Though he adverted to the matter in his annual message to Congress in calm and temperate tones, he was preparing a proclamation, which appeared only a few days afterward, in which he very plainly told the refractory South Carolinians what he should do if they made any forcible resistance to the execution of the laws of the United States. This proclamation was followed by asking Congress to confer additional powers adequate to the occasion. That body patriotically complied with his request. A force bill, as it was called, was speedily enacted; but the South Carolinians, seeing the strong arm of the government uplifted to vindicate the laws, suddenly changed their purpose, the nullification ordinance was repealed as hastily as it had been passed, and tranquillity was restored.

At the next session of Congress, President Jackson recommended a reduction of the tariff, in order to appease this froward State. He admitted that it would seem a violation of public faith, suddenly to abandon the large interests which had grown up under the implied pledge of our legislation, and added that "nothing could justify it but the public safety, which was the supreme law." The reason for the reduction was that the tariff then existing would produce too much revenue. Accordingly, a new bill was introduced, prepared by the secretary of the treasury, called "Verplanck's bill," in which the duties proposed were nearly the same as those contained in the bills of 1816 and 1818. A persistent effort was



made to pass it, but without success. Then Mr. Clay brought forward a bill, which was accepted by those who had been trying to pass the former one, and which was adopted by a large majority. Nevertheless, the warmest friends of protection, except Clay himself, opposed the bill. Nathan Appleton, a trustworthy critic, says that Mr. Clay acted under the mistaken idea, put forward by the administration, that the tariff of 1832 would produce more revenue than was required for the administration of the government.<sup>1</sup>

The leading provisions of this measure were the following: after the year 1833, the duties imposed on foreign imports by the Act of July 14, 1832, exceeding twenty per cent, were to be reduced to the extent of one-tenth of the excess; and after the years 1835, 1837, and 1839, respectively, a further deduction of one-tenth of the excess; and two years afterward, a further deduction of one-half of the remainder of the excess; and after the year 1842, the residue of the excess was to be deducted.

That portion, also, of the Act of 1832, which fixed the rate of duty on milled and fullered cloth composed of wool,

<sup>1</sup> What is a Revenue Standard? pp. 17, 18. But Clay himself, in giving a history of the Act, affirmed he originated it unaided by suggestion, and unsupported by authority. He first thought of it while at Philadelphia, on a visit to his sister. He had a meeting of certain manufacturers at that city, who approved the plan. He saw Webster, but the latter did not approve it; neither did President Jackson, nor did other high and powerful persons whom Clay saw. Calhoun demanded a home valuation, but there were many opposed to that feature. Calhoun finally gave the measure his support. The President's sanction was not gained without difficulty. His most influential friends urged him to sign it. "They used arguments, and even threats, before they were successful." — *Clay's Speech at Milledgeville, Ga., March 19, 1844.*

the value of which did not exceed thirty-five cents a square yard, at five per cent *ad valorem*, was repealed. Such cloth was thereafter subjected to the same duty as other manufactures of wool; namely, fifty per cent *ad valorem*, diminishing in the manner just mentioned.

The bill contained two other very important features, which were taken from the law passed the previous year. These were, that after the year 1842 duties on imports should be paid in cash, and assessed on the value of the goods at the port where they were entered.

The compromise consisted in giving manufacturers ten years' notice to prepare for the final abandonment of the principle of protection. This principle, which had been in operation for forty years, was to be thrown aside at the end of half a century's national existence under the new constitution. "This," says an able free-trade authority of those times, "the manufacturers claimed as a right to protect investments into which they pretended to have been tempted by the government."<sup>1</sup> By the descending scale established by this Act, the average duties on all imports ranged from fourteen and a half to sixteen per cent. In 1836 the law was somewhat amended by reducing the duty on wines; and, in 1841, the duty on railroad-iron was reduced to twenty per cent *ad valorem*. By the same Act, a duty of twenty per cent was laid on imports, which at that time were admitted free. With the exception of these slight changes, nearly a ten-years' trial was given to this legislation.

The departure was radical. Hitherto the open and avowed policy of the government, so Robert J. Walker

<sup>1</sup> Dem. Rev., vol. xix. p. 171.

declared, had been protection to home manufactures. Previous to the war of 1812 the duties on imports had been low; but the government had been exceedingly friendly to domestic manufacturing, while still greater protection was afforded by the warring condition of the nations of the Old World. The war of 1812 sadly blighted our commerce, but it aided wonderfully in developing our manufactures. Since then the government had continued to protect, raising ever higher and higher the barrier until now, when the policy was to be reversed, and, after ten years, utterly abandoned.

The adoption of the horizontal scale of reduction, until all the duties should be reduced to one dead level of twenty per cent *ad valorem*, was an exceedingly crude piece of legislation; but the law, it must be remembered, was a compromise, "and the friends of protection were not to be blamed because they could get nothing better." They did the best they could to save the interests they cherished so dearly. It was not a free-trade measure, but one which, at the end of ten years, would place the country on a free-trade basis. It was not a protective measure in the sense of working effectively: it was simply what it purported to be,—an easing-down of the protective system until free trade should be reached.

"Regarded either for revenue or protection," said Robert J. Walker, in his report in 1845, "the measure was a great mistake." A leading iron-manufacturer, when questioned, in 1842, with respect to the working of the law, remarked that "the minimum in 1832 was arranged to meet our tariff; and the minimum of 1841, to operate on our manufacturers like a wasting disease, so that,

when the crisis arrived, they might die without a faint struggle.”<sup>1</sup>

What did the manufacturers of that time think of the law? Joseph Jackson, who testified before an investigating committee in 1842, said that he had bought iron for rolling at his rolling-mills in Jersey City, from five hundred to seven hundred tons per annum, at the following prices:—

	Per ton of 2240 lbs.		Per ton of 2240 lbs.
1832 . . . .	\$75.00	1838 . . . .	\$70.00
1833 . . . .	72.00	1839 . . . .	70.00 to \$66.00
1834 . . . .	70.00 to \$65.00	1840 . . . .	65.00 to 60.00
1835 . . . .	67.50	1841 . . . .	60.00 to 50.00
1836 <sup>2</sup> . . . .	67.50 to 85.00	1842 . . . .	50.00
1837 <sup>2</sup> . . . .	90.00 to 70.00		

Iron, which was sold in 1832 for a hundred and twenty dollars per ton, shrank in value to eighty dollars in 1842. A similar shrinkage befell every kind of iron manufactures. The reader will have no difficulty in believing that Mr. Jackson told the truth when he informed the committee “that so great a decline must stop our operations.” The story of the last ten years’ business was truly a gloomy one; nor were there any bright streaks in the picture. The entire dome of the industrial sky was darkly colored.

Surely the manufacturers of glass had not fared well. The production of flint-glass was begun in 1817, but it did not flourish until 1824. From that period until 1832 the duties were three cents per pound and thirty per cent *ad valorem*, and twenty per cent *ad valorem* and two cents per pound on plain glass. The specific duty was

<sup>1</sup> Saltonstall’s Report, No. 461.

<sup>2</sup> Year of speculation.



laid to counteract the effect of the British bounty of three cents a pound paid to the exporter. The English manufacturer, who was also the exporter, thus favored by his own government, increased his importation; and, as the duties grew lighter, the prospect of crushing his American competitor brightened. In 1841 the struggle had become very unequal; for the English importer was not only favored with the low duties, but had also learned the art of invoicing his goods fraudulently,—a fact that was proved when seizures were made in New York in 1839.

Even the cotton-manufacturers had been driven from some parts of their once cultivated field. Their British competitors, by using a short-staple cotton, and imitating the American fabric, had succeeded in driving American cotton manufactures from South America. Indeed, the home market was seriously threatened from the same cause; yet the American cotton-manufacturer could review his experiment with considerable satisfaction. Improvements in the manufacture of cotton had been costly; but the raw material was here, and water-power was abundant. The tariffs of 1816 and 1828 had given ample protection. What had been the result? The swift and effective application of capital to the manufacture of cotton, the calling into action of a manufacture of human labor previously dormant and inactive, “and all this with a constant reduction in the price of the commodities produced, and an extension of the application of this one great staple to new products and uses.” And what had produced this pleasing result? The manufacturers themselves declared that “it was the assurance of the home

market which gave confidence to capitalists," and "the stimulus of a protective tariff."

It is true, for a considerable period previous to 1842 this great industry was depressed. Notwithstanding the low price of cotton, stocks had accumulated "to a most inconvenient degree," and heavy losses were impending. The manufacturers attributed the depression in a great measure to the deranged state of money, and the glutted condition of foreign markets caused by over-production. But the reduction in the tariff, and the heavy importations which had followed, and the uncertainty which hung over the proceedings of Congress in regard to the tariff, added to the gloom and apprehensions of those engaged in the cotton manufacture. They very plainly told the congressional committee on manufactures, who were investigating the subject, that "it would seem to be no time to try new experiments with this great interest, when the whole or the principal effect of so cutting down the tariff as to increase the imports of cotton manufactures would be the substitution of goods made from inferior foreign cotton in the place of our own better staple. That such a policy should be sustained by the representatives of the cotton-growing States, at the very moment when Great Britain is straining every nerve to supply herself with this staple from her own dominions, and with great apparent success, would imply such a self-sacrificing devotion to abstract theories as is, we believe, without example in the history of the world."

The woollen-manufacturer had had a doleful experience. The United States was the emptying-ground for the foreign manufacturer, who often sold his goods at

auction; and, at the prices thus established, the home manufacturer was often obliged to sell in order to dispose of his products. This was the most serious obstruction lying in the path of his progress. Auction prices were too low for him; and, unhappily, these prevailed much of the time.

In 1823 wool was bought and shipped to England as a remittance, at sixty-two and a half cents per pound. During the subsequent period it fluctuated considerably; the price advancing to seventy cents, and falling to forty cents. In 1841 it was worth forty-eight cents. At the beginning of the same period also (1823), fifty cents a yard was paid for weaving a four-dollar broadcloth: the work was done by men by hand. In 1841 the work was done on a power-loom, attended by a girl, at fifteen cents a yard, including the overseer's wages. In 1823 ten cents a pound was paid for spinning yarn from the rolls for the same kind of goods: in 1841 less than two cents a pound was paid, in consequence of introducing improved machinery. In other branches of the manufacture the expense had been lessened. The price of cloth that sold for four dollars and a half a yard in 1823, had fallen one-third. The introduction and expense of labor-saving machinery had fallen on the manufacturer, who had reaped but little benefit: the consumer had gained nearly the whole. All the foreign improvements, and many more, the products of American genius, had been introduced.

One of the most prominent woollen-manufacturers of that day was certain, that, if the duties laid on woollens had been faithfully collected, the industry would have been profitable; but frauds had been so numerous as to deprive



them, "not only of the interest on their capital, but, in most instances, of the capital itself." Half, if not more, of those engaged in woollen manufactures, during the nineteen years preceding 1842, had become bankrupt. Farmers and operatives had profited; but the owners of factories, in the aggregate, had gained nothing.

How much worse the cotton and woollen manufacturers would have fared, during this gloomy period of a waning tariff, had they not connived with the officers of the custom-house at New York to check importations by increasing the prices of invoices, and seizing goods, and subjecting importers to unexpected annoyances, cannot be determined. That the manufacturers, through the agency of others, sought to do these things in order to prevent sliding down into ruin, has been clearly proved.<sup>1</sup>

The condition of another great industry may be described before closing this chapter. From 1816 to 1820 the annual production of sugar increased from fifteen thousand to forty-five thousand hogsheads. At the latter period the capital invested in the industry was \$34,000,000. During the next two years, three hundred and eighty-three new estates were added to the three hundred and eight previously existing. The amount of the investment was thus increased to \$50,000,000. Before these new estates were prepared for making sugar, the tariff of 1834 was adopted, and a hundred and fifty-six of them were compelled to abandon the business. Six years later the entire industry was threatened with annihilation.<sup>2</sup>

<sup>1</sup> No. 669, 27 Cong., second session.

<sup>2</sup> The planters affirmed, in a memorial addressed to Congress, "Louisiana, with its uncertain climate and expensive operations, cannot produce



While the gradual reduction of the tax on foreign sugars was undermining this once prosperous industry, the sugar-planters themselves declared, in a memorial to Congress, that a diminution in the current price of that commodity, which was the object of the Compromise Act, could not be attained if they were compelled to abandon the cultivation of the cane. Nor was their statement unsupported by fact or reasoning. It was an axiom in commerce, they said, that, when a necessary of life was not commensurate to the demand, the cost of producing such a commodity had little to do with its price in the market. The truth of this axiom was fully confirmed by the influence exercised by the production of American sugar over foreign markets.

During the last ten years, the prices in Havana in the month of April, for muscovado sugar, had been as follows:—

	Per arroba.		Per arroba.
1830 . . . .	3 to 4 cents.	1835 . . . .	4 to 4.627 cents.
1831 . . . .	2.5 to 3 “	1836 . . . .	6.125 to 7 “
1832 . . . .	2.75 to 3 “	1837 . . . .	3.5 to 4 “
1833 . . . .	2.377 to 3 “	1838 . . . .	3.33+ to 4.5 “
1834 . . . .	2.877 to 3 “	1839 . . . .	2.75 to 4 “

Thus, although the duties were reduced, the price of sugar was not greatly changed. When the Louisiana crop for 1835-36 shrank to twenty-five thousand hogsheads, the price in Havana was nearly doubled, although the sugar under five cents and a half; while in the West-India Islands, with their genial climate and cheap operations, muscovados can be produced so as to yield a fair remuneration at two cents and a half to three cents. Under these circumstances the enormous investments of capital in the cultivation of sugar, since 1816, would not have taken place, had not a continuation of the revenue-tax then laid upon foreign sugar been implicitly relied upon.”

Cuban crop had been quite as large as usual. Consequently, the memorial affirmed that the gradual reduction of the tax on foreign sugars was nothing more than a premium granted to foreign industry, paid by American consumers.

Intimately related to sugar-making was the business of sugar-refining. For a long period the duty on raw sugar was two cents and a half a pound, which was ample to prevent importation. This security had been given to the refiner ever since the inception of the business, and was enough to stimulate him to great undertakings. A large amount of capital was invested, a high degree of skill was required, and every improvement suggested in this country, or discovered abroad, was introduced. Ere long refiners were able to sell refined sugar at a lower price than the refiners of any other nation. They, indeed, had been successful in prosecuting their business.

## CHAPTER VI.

## TARIFF LEGISLATION.

1842—1846.

THERE had been a lull in tariff legislation for ten years. The free-trade party had been ascendant; and amendment of the law, save in the slight ways mentioned, had been impossible. During the decade, a financial tornado had swept over the country; the United-States bank had ceased to be; the experiment of keeping the government deposits with the State banks had been tried, and had failed; the government had kept them several years without authority, but finally a bill had been passed which authorized keeping them in that manner. The time had now nearly come for reducing the duties to their lowest point. Manufactures were drying up at the root. A material augmentation of the national revenue from some source had become necessary, for it had fallen below the annual expenditure. Whatever difference of opinion existed respecting the necessity of additional protection to manufacturers, some expedient, it was universally conceded, must be adopted to increase the public revenue. As no one favored direct taxation, a revision of the tariff was the only mode of enriching the treasury.<sup>1</sup>

<sup>1</sup> The Democratic Review said, "We have seen that protection from the incident has been distorted into the principle, and that an advance

Forward, secretary of the treasury, in his annual report at the close of 1841, discussed the subject, not only with reference to increasing the duties because the government needed a larger revenue, but also with reference to various important changes in the mode of collecting duties, if the law of 1832 should be continued. "It is fully acknowledged," he said, "that all the duties should be laid with primary reference to revenue; and it is admitted, without hesitation or reserve, that no more money should be raised, under any pretence whatever, than such an amount as is necessary for an economical administration of the government." But within those limits, and incidental to the raising of such revenue, he believed there might be such a discrimination in imposing duties, that, while no part of the country should suffer loss or inconvenience, a most

of duties, from five to forty per cent average, has produced no other result than to give strength to the manufacturers in seeking to enforce further special legislation for their benefit. The evil has become so great as to lead to the consideration, whether it should not be counteracted by an entire abandonment of indirect taxes, and an abolition of the custom-house. By such a course, a patronage of some eleven thousand offices will be taken out of the hands of the Federal Government, and a source of vast corruption dried up. The wants of the Federal Government may be \$22,000,000 per annum, besides the land revenues. This could be easily raised by a tax apportioned among the States. As, for instance, the mill tax of New York yielded \$655,067, a two-mill tax would give at least \$1,200,000, which would be collected, without any increase of machinery, by the comptroller of New York, with the State taxes, and placed to the credit of the Federal treasury. The collection would not cost a dollar; and the support of the Federal Government would fall upon property instead of upon labor. The economy and feasibility of such a system is superior to that of customs. By the removal of the latter, many evils would be remedied, particularly that of every few years arraying the manufacturers against the government, and making the distress of work-people the means of warfare." — Vol. xix. p. 174.



beneficial degree of protection could be extended to the labor and industry of large masses of the people.

The committee on manufactures did not report to the House until the last of March, 1842. Believing, like most of the merchants and manufacturers, that specific duties afforded the best security against frauds, they were generally retained. The leading provisions of the bill reported by the committee were the following:—

1. A general *ad valorem* duty of thirty per cent, with few exceptions where the duty was on that principle.

2. A discrimination was made for the security of certain interests requiring it by specific duties, in some instances below, in others above, the rate of the general *ad valorem* duty.

3. As a general principle, the duty on the articles subject to discrimination was made at the rate at which it was in 1840, after the deduction of four-tenths of the excess on twenty per cent by the Act of 1833.

The report accompanying the bill was exceedingly elaborate, and contained much valuable evidence, from manufacturers and others, concerning the working of the law of 1832, the present condition of the leading industries, and what in their opinion was needed to make domestic manufacturing more prosperous. They declared that much more evidence would have been presented, had Congress given the requisite authority to collect it. A single extract from this document will enable the reader to get some idea of its tone and nature.

“All the great interests of the country are now in an extremely depressed condition: every branch of industry is paralyzed. How is it that in a time of profound peace, with a

country abounding in natural resources, and blessed by Heaven beyond any other people who ever existed, the voice of complaint should come up from every part of the land?

“There are several causes for the present depression of property, and general stagnation of business, one of which will be admitted to be the large amount of our importations over the amount of exports. This depresses our home industry, and drains from the country annually large balances in specie, crippling our banks, and depriving them of the power to grant the necessary facilities. The same causes produced the exhaustion of our resources, and the embarrassment, which were the principal cause of the adoption of the constitution. From 1783 to 1789 the trade of the thirteen old States was perfectly free to the whole world. The result was, that Great Britain filled every section of our country with her manufactures of wool, cotton, linen, leather, iron, glass, and all other articles used here; and in four years she swept from the country every dollar, and every piece of gold.”

As usual, there was a minority report, quite as lengthy, which swept over the whole field. Most of the speeches that followed were as profitless as the discourses of a former day concerning the grades of angels. The really valuable light turned on the subject was emitted by the manufacturers, who had appeared before the committee. Long before, it had become evident that mere human reasoning was altogether inadequate to settle the question. What was wanted, through all these years, was an honest and thorough inquiry into the condition of American manufactures, and the workings of the various laws which had been passed touching these interests.

The subject was discussed at great length by the House,

although the time was drawing near for making the last reduction under the compromise law of 1832. Something must be done. Accordingly, Fillmore, chairman of the Committee of Ways and Means, reported a bill to extend the existing tariff laws until the first day of August, 1842, which was immediately passed by the House; but the Senate amended the bill by adding a proviso that nothing therein contained should suspend the operation of the distribution law,—a law passed at the extra session of the preceding year, distributing the proceeds of the sales of the public lands among the States. The first half-yearly distribution was to take place the 1st of July. Besides, there was another reason for passing this temporary law. Under the compromise Act, after the 30th of June, there was to be a home valuation and cash duties. No law had yet been enacted to regulate their collection, and it was questioned whether there was any authority to collect them.

In the debate on this bill the proviso became a prominent topic of discussion. The distribution Act contained a proviso, that, if at any time the duties under the compromise tariff should be raised, the distribution should cease, and be suspended until the cause of the suspension were removed. This proviso to the distribution Act was, at the time of passing the bill, highly objectionable to many of the friends of distribution; but its adoption was found necessary to insure its passage, the advocates of a low tariff apprehending that the diversion of money accruing from land-sales would necessitate an increase of duties. Those who were in favor of high protective duties desired the removal of the proviso of the distribution Act in order

that the tariff might be raised without interfering with distribution. The House having rejected an amendment proposing to strike out the proviso which prohibited the suspension of the distribution law, the bill was passed by the House, and afterward by the Senate, but vetoed by the President.

Another tariff bill was introduced by Mr. Fillmore, drawn by the secretary of the treasury, — to which, however, the committee added a proviso that the distribution of the proceeds of the public lands should be distributed, notwithstanding the increase of duties, — which passed both Houses after a short debate. This contained a revision of a considerable number of duties, and was also vetoed by the President.

Impelled by the necessity of providing additional revenue, a bill was rapidly pushed through Congress, similar to that previously passed, with the omission of the proviso requiring distribution, and further modified by admitting free of duty tea and coffee growing east of the Cape of Good Hope, imported in American vessels. This bill was approved by the President.<sup>1</sup>

A separate bill was then passed, repealing the proviso of the distribution Act, and allowing the distribution to take place, notwithstanding the increase of duties; but the bill was retained by the President, and defeated.

Thus ended a long and bitter controversy, in which public sentiment expanded, and hardened against the chief Executive of the nation. Adams made a lengthy report against what he regarded a usurpation of power by the President, and recommended such an alteration of

<sup>1</sup> Aug. 30, 1842, 27 Cong., second session, chap. 270.



the Constitution as would enable Congress to enact laws by a simple majority vote, instead of a two-thirds vote, whenever bills were sent to the President for his approval, and did not receive it.

That tariff remained without change during the next four years. In expectation of higher duties, importations were enormously increased, importers believing that prices would advance, and that their profits would be larger. They over-stocked the market, and at a time, too, when the people were feeling poor, not having fully recovered from their terrible reverses. So prices fell. Not even by damming up the channel of imports with higher duties could the downward movement be prevented. Of course, this condition of the market caused a great decline in importations.<sup>1</sup> During the first nine months of the new tariff, imports amounted only to \$64,753,799, of which about \$24,000,000 were dutiable goods, paying nearly thirty-six per cent average duty. For the next two years the imports were \$225,689,599, and the duties \$60,188,774, or twenty-seven per cent, which was a return to the war-tax of 1812.<sup>2</sup> When the secretary of the treasury made his first report, after the law went into effect, he declared the time had been too short to furnish any decisive evidence respecting its permanent influence on importations. Foreign trade continued to decline, and importations were slight. How far this state of things was caused by the existing system of duties, it was impossible to determine. He declared, how-

<sup>1</sup> See Report of Com. of Ways and Means, No. 227, 27 Cong., third session.

<sup>2</sup> Dem. Rev., vol. xix. p. 172.

ever, that the smallness of the importations might well be accounted for by the embarrassed condition of the country, and the extremely limited means of purchase. Prices of foreign goods had heavily declined during the year: it could hardly be affirmed, therefore, that the diminished importation was caused by the system of duties which had gone into effect.

Those opposed to the tariff-law declared that the decline in importations was chiefly due to the very high duties which had been imposed.<sup>1</sup> As more revenue was needed, they accordingly advocated a reduction of duties. On the other hand, it was said that the decline in importations was mainly owing to other causes, and that a reduction of the duties would not increase the revenues, — perhaps they would shrink still more. When the object of taxing imports is purely to get a revenue, and the largest possible amount, what tax shall be levied can be exactly determined only by experiment. If there be a uniform duty of forty per cent, for example, a reduction to thirty per cent may have the effect of increasing the imports more than twenty-five per cent, in which case the revenue is increased; but, if imports are not increased twenty-five per cent, there is a loss of revenue by redu-

<sup>1</sup> The Committee of Ways and Means affirm in a report on this subject, March 11, 1844, "The fact of the great falling-off in the importations of many important articles, as well as in the aggregate of dutiable importations, under the present law, will be apparent; and, whatever other influences may have affected the trade of the country during the various years, it will be difficult to believe that the high duties under the present law have not had a powerful effect, if not the chief agency, in producing the result." McKay was chairman of the committee, who was strongly in favor of free trade.

cing the duty. It is certain, if high duties had not been the chief cause in reducing imports, the protectionists could not fairly claim, as they did, that the tariff had been the effective agent in protecting their interests. They could not prove both claims,—that the law was protective, and yet not effective in checking importations. If protection had been afforded by it, importations had been diminished: on the other hand, if the law had not checked importations, how could it have furnished any protection?

The next year four million dollars more were wanted than the estimated income, and four and a half million dollars the year following. How should this estimated deficiency be raised? John C. Spencer, who was now secretary of the treasury (the third during Tyler's administration), discussed the subject at considerable length. A reduction of expenditures was one way. Then he turned to the question of taxation. Direct taxation was impracticable: no permanent increase could come from any modification of the land system. Some temporary accession might be obtained by reducing the price of land offered for sale; but such a change would hazard, if not destroy, a rich fountain, whose regular and steady stream was kept up by maintaining the policy then pursued by the government. Our ultimate resources, therefore, he declared, must be duties on imports. But he was unable to discover how any existing duties could be increased with a reasonable prospect of augmenting the revenue. The danger was, that, if imports were subjected to a higher duty, they would be either clandestinely introduced, or not imported at all. Looking at the subject

exclusively with reference to revenue, he was not prepared to specify any very important rates of duty that would bear reduction. He added, however, that those levied on glass, particular kinds of iron, coal, and sugar, were considered by many too high for revenue purposes. The last way of raising the revenue needed, that he could discover, was to tax tea and coffee. The opinions of importers of these commodities, of merchants, and of officers of customs in various parts of the United States, were "unanimously and decidedly in favor of such duties," as "more equal and less burdensome than any other mode by which the same amount could be collected."

Congress, though, did not see fit to heed the recommendation; but the next year, when the annual report of the secretary of the treasury was presented, a more favorable account was given of the national income. Bibb affirmed that the system of revenue established by the law of 1842, for imposing duties on imports, would yield a much greater amount of annual revenue than was necessary for the support of the government, the public credit, and the wants of the treasury.

So long as Congress kept within the confines of raising revenue necessary for the support of the government, to maintain the public credit, and to provide for the common defence and general welfare, the incidental encouragement and protection of domestic manufactures, arising out of the mode of laying such necessary revenue by duties on imports, he contended, was rightful, — "an inevitable attendant upon the exercise of delegated power.

"The value of goods," he further remarked, "and merchandise imported free of duty, bears a great proportion



to the value of those imported paying duty. By such exemptions from duty, the inequality of the burden of taxation between the respective classes of consumers is increased. By enlarging the circle of articles charged with duty, and diminishing the circle of articles exempted from duty, the proportions of contribution to the public treasury can be made to bear more fairly and equitably upon those who pay these indirect taxes. By lowering the rate of duties, and abridging the list of articles admitted free of duty, the comforts and consumption of the people will be enlarged, the temptation to smuggling will be decreased, and the necessary sum of revenue will be more certainly raised." Bibb, therefore, recommended lessening the rates of duties, and that all articles imported be subjected to duty, excepting such as should be imported for the use of the United States, and in certain other cases.<sup>1</sup>

Congress did not heed his recommendations. The tariff remained unchanged until 1846. From 1832 to 1840 the subject slept, because the majority of Congress were opposed to any change; but with the election of Harrison, in 1840, the tide in the House turned. The protectionists formed a majority, and a fresh agitation was begun. Had Harrison lived, the bill of 1842 would have been different from what it was. Had not the government required a larger revenue from some source, doubtless Tyler would not have approved any bill increasing the tax on imports. The needs of the government were so

<sup>1</sup> Annual Treas. Report, December, 1844. There was one defect in the law, needing amendment: it discriminated against the wines of Portugal, contrary to treaty. — Report No. 124, 28 Cong., first session.

great that he could not do otherwise. Each secretary of the treasury discussed the subject, and no one regarded the law as a permanent piece of legislation. At nearly every session of Congress the subject was agitated. Such constant attempts to change the tariff were by no means favorable to the development of our manufacturing interests. "No complaint," said McKay in 1844,<sup>1</sup> "has been more universal, nor, as the committee believe, better founded in fact, than that which comes from the manufacturers, the merchants, and all other classes of businessmen interested in the matter, and relates to the frequent and extreme changes and fluctuations so constantly experienced in the legislation of Congress upon the subject of the tariff."

Importations on foreign account constantly increased. Of the total amount imported from England in 1840, and entered at the custom-house in New York, sixty-five per cent was on English account, and thirty-five per cent on American. From all other countries, China excepted, the proportion in favor of foreign importation on foreign account was the same as that from France; viz., eighty-three per cent.<sup>2</sup> Thus, like the people of Babylon, we had suffered the foreigner to control the import-trade of the country.

During the period under review, notwithstanding the increased tariff, prices were largely reduced. The reduction was not due wholly to the tariff, but it was a co-operating cause. The severe times through which the

<sup>1</sup> March 11, No. 306, 28 Cong., first session.

<sup>2</sup> Ingersoll's Minority Report, April 4, 1844, No. 306, 28 Cong., first session.

country had passed, the suffering endured, and the loss of wealth sustained,—these causes also contributed in reducing prices.

It may be remarked that higher duties<sup>1</sup> had been adopted for the purpose of raising a revenue, and of throwing greater protection over American manufactures. Did the law fulfil the expectation of its originators? Elsewhere we have shown, that, after it had been executed for a considerable period, the revenues were insufficient to pay all the expenses of the government. Importations were very much checked through the inability of the people to purchase. But in 1843 imports swelled, the revenues became ample, and there was no need of increasing them. The law, therefore, fulfilled the expectation of its authors in this regard.

But it may be asked, Was not that a marvellous law, and the perfection of legislation, which increased the revenue, and revived the withering manufacturing interests of the land? How could increased revenue and more protection be obtained from the operation of the same law? Let not the reader puzzle himself with the question: let him fix his eye steadily on the facts, and he shall learn the answer. More protection was obtained by checking importations: this fact no one will dispute. Another fact is equally clear: although importations were diminished, the revenues were not, because, in consequence of the higher duties imposed, a larger revenue

<sup>1</sup> The appendix to Hudson's Report, No. 420, 28 Cong., first session, contains a large number of very valuable tables, showing the decline in prices after the increase of duties in 1841. The report itself is in Niles, but not the appendix, which is the most valuable portion.

was collected from the importations than had been collected previously from larger importations paying lighter duties. A third fact may be noted: the revenues, so long as the law existed, were ample, after its full effect appeared.

The effect of this tariff-law was highly satisfactory to the believers in governmental protection. One of the leading cotton-manufacturers of the day, after reviewing its effect on all the leading articles of consumption, remarked, "Its adoption was one of those events which stamp a decided character on the period in which they occur. It may be said to be the first pivot on which turned the fate of the country. The currency had been long deranged; with a deficient revenue, the credit of the general government had been reduced to the lowest ebb; trade was prostrate, industry paralyzed; the public mind was filled with apprehension and dismay at the portentous indications of the future, — when this measure, adopted with the greatest difficulty, carried almost by miracle, changed, as if by enchantment, the whole scene. In the short space of a year, the whole country passed from the depth of suffering, idleness, and depression, to a state of the most active prosperity and the fullest confidence. No one capable of tracing cause and effect can doubt that the change was the direct and immediate result of the tariff." <sup>1</sup>

Alas for the manufacturers! Their prosperity was short-lived. Their summer — like that of the dwellers in the Red-river settlement of the North, where the sunshine, brief, but brilliant, clothes the valley with an almost

<sup>1</sup> Nathan Appleton, *What is a Revenue Standard?* etc., p. 11.



tropical luxuriance, and rich crops ripen, and fruits and flowers of the South mature in a brief period—was to pass swiftly, and be succeeded by a long, dreary, and unwelcome winter.

## CHAPTER VII.

## TARIFF LEGISLATION.

1846-1860.

IN 1846 the tariff was radically changed. Polk was President. When in Congress, he had generally favored low duties; but, as the electoral vote of Pennsylvania must be won to insure his election to the presidency, he wrote a letter, during the canvass, in which he tried to make the people of that State believe he was in favor of a tariff that would afford sufficient protection to their various manufacturing interests. Having been elected, he placed at the head of the treasury department Robert J. Walker, whose first report was such an unequivocal and elaborate argument for free trade, that it secured the rare praise of republication by the British Parliament. The manufacturers of Great Britain having zealously labored for Polk's election, and contributed munificently to that end, perhaps a decent regard for the donors required the appointment of a secretary of the treasury who should thus labor in their behalf, however disastrous might be his efforts to the wealth and happiness of his own countrymen.<sup>1</sup> Anyhow, the President could not have chosen

<sup>1</sup> The London Times said during the campaign, "A subscription was recently opened to raise funds to circulate free-trade tracts in foreign countries. About four hundred and forty thousand pounds were sub-

a finance secretary more acceptable to the English manufacturers, who, whether free trade be advantageous to the American people or not, have never doubted that their own interests were promoted by making trade as free as possible among all nations.

In this celebrated document, Walker announced the following propositions, which formed the basis of all his reasonings on the subject:—

1. That no more money ought to be collected than was necessary for the wants of the government, economically administered;

2. That no duty should be imposed on any article above the lowest rate which would yield the largest amount of revenue;

3. That below such rate discrimination might be made, descending in the scale of duties, or, for imperative reasons, the article might be placed in the list of those free from all duty;

4. That the maximum revenue duty should be imposed on luxuries;

5. That all minimums, and all specific duties, should be abolished, and *ad valorem* duties substituted in their place, care being taken to guard against fraudulent invoices and undervaluation, and to assess the duty upon the actual market value;

6. That the duty should be so imposed as to operate as scribed. Some of these tracts are to be printed in New York for circulation in the United States." At Manchester a hundred thousand pounds were raised for the same purpose. It has never been denied that most of the money thus raised was used to elect Polk, with the expectation or understanding that the tariff of 1842 would be radically modified in the direction of freer trade. See 67 Niles, pp. 39, 77.

equally as possible throughout the Union, discriminating neither for nor against any class or section.

Some articles, he remarked, would yield the largest revenue, when paying duties that would be wholly or partly prohibitory in other cases. The highest revenue duties could be collected from luxuries; but even some very costly ones, easily smuggled, would bear but a light duty for revenue, while other articles of great bulk and weight would bear a higher one. No nation had ever enacted a horizontal tariff; but while it was impossible to do this, or even to adopt any arbitrary maximum, experience proved that generally a duty of twenty per cent *ad valorem* yielded the largest revenue. On many things a lower rate would be the most productive.

The constitutional power of Congress "to lay and collect taxes, duties, imposts, and excises," did not authorize the laying of a prohibitory duty, or a duty in which revenue was sacrificed to the object of protecting the manufacture of the commodity that was taxed.

Taxation, he further remarked, whether direct or indirect, should be nearly as possible in proportion to property. If the whole revenue were raised by a tax upon property, the poor would pay a very small portion of such a tax; whereas, by the consumption of imports, or of domestic commodities enhanced in price under the tariff, the poor were made to pay a much larger share of the taxes than if they were collected by an assessment in proportion to property. To counteract, so far as possible, this effect of the tariff, and make it approximate to a system of taxes in proportion to property, the duties upon luxuries should be fixed at the highest revenue standard.



This would not be discriminating in favor of the poor, but would mitigate that discrimination.

A bill was introduced into the House, embodying the views of the secretary, which passed without lengthy debate. In the Senate, the question of adopting the *ad valorem* system, in preference to specific duties, was debated at great length, and with much ability. Several amendments were offered ; but the bill finally passed with no notable alteration, save one relating to the collection of duties. The friends and opponents of the measure were so evenly divided, that the Vice-President, Dallas, was obliged to vote in order to secure its passage.<sup>1</sup> Coming from Pennsylvania, we may well imagine that the duty was not pleasant to perform.

The law was very unpalatable to American manufacturers. A tariff born under such conditions, and sponsored by the English nation, the believers in protection might well shrink from accepting, with not less reason than Laocoön did the wooden horse filled with armed men.

In enacting this law, the ideas lying at the bottom of the tariff of 1832 rose to the surface, except that the absurd doctrine of a horizontal reduction was replaced with a better mode for reducing duties. The *ad valorem* system was now extended to the outermost edge : henceforth Congress could go no farther, save to reduce or abolish the rates. Setting aside the increased danger of fraud, it was objected that an *ad valorem* duty was altogether too fluctuating and uncertain ; that at one time it might be too high, at another too low, the ever-varying changes in the price of goods producing this effect. The

<sup>1</sup> The bill was passed July 30.

sliding scale of the English corn-laws was intended to make the price uniform by imposing a high duty when corn was cheap, and gradually diminishing the duty almost to nothing as the price rose. This was harshly censured by the advocates of free trade in England for its uncertainty, who contended that all variations in duties were pernicious. But an *ad valorem* duty was the same sliding scale reversed. When the commodity imported was dear, the duty rose, and the payment of it constituted a heavy burden; but when the commodity became cheap, and a high duty would hardly be felt by the consumer, the duty fell. Thus fluctuation in prices, which can never be wholly avoided, but which usually brings evil, was increased by the adoption of the *ad valorem* principle.

How did this sliding scale affect the manufacturer? When prices abroad were high, and protection was less needed, the effect was to increase his profits; but when prices fell, and protection was needful, the duty fell too, and his struggle against competitors was intensified. When the price of bar iron was ten pounds sterling in England, the duty of thirty per cent might be adequate protection; but, when the price was only four or five pounds per ton, the duty fell in proportion, and the American manufacturer must suffer. Calhoun saw this defect so clearly, that he favored the adoption of a sliding scale of an opposite kind, in levying duties on railroad iron, like that embodied in the English corn-law. His view, though, was not entertained by many. Walker was master of the situation, and the manufacturer could do nothing.<sup>1</sup>

<sup>1</sup> Protection and Free Trade, etc., Salem, 1846, pp. 23, 24

The war with Mexico, the discovery and yield of gold in California, and the famine in Ireland, which created an extraordinary demand for our breadstuffs, delayed the dreaded ills which were expected to appear from the withdrawal of protection. Nevertheless, they appeared too soon, and were too potent to be resisted.

In 1851 the "American Review" said that the immense importations of foreign merchandise into the country, in consequence of the encouragement held out by the present tariff, were beginning to be severely felt by the commercial and trading interests, and would surely result in the most ruinous consequences to the country at large. The low prices to which the staple articles of agriculture had fallen must convince farmers and planters that increased importations were not counterbalanced by exportations of produce, notwithstanding the predictions of the late secretary of the treasury, Mr. Walker.<sup>1</sup>

The growth of fraud under the law was rapid and demoralizing. Gallatin, in 1801, had urged an extension of specific duties in order to prevent undervaluation. In his annual report for that year, he said, "Without any view to an increase of revenue, but in order to guard as far as possible against the value of goods being underrated in the invoices, it would be eligible to lay specific duties on all such articles, now paying duties *ad valorem*, as may be susceptible of that alteration." The numerous frauds occasioned by the adoption of the *ad valorem* system were clearly set forth by the various

<sup>1</sup> Vol. xiv. p. 270.

collectors in their reports to the secretary of the treasury in 1849.<sup>1</sup>

The Democratic party at this period were very hostile to the tariff. The Democratic convention of Hamilton County, Ohio, addressed the following letter to the secretary of the treasury, which was a fair and candid expression, generally, of those who belonged to that party: "Manufacturers are not of themselves objects of desire to a free people, or of favor for a free government. They involve the necessity of a crowded population, subject to a very arbitrary control over their comfort by a few wealthy persons, and devoted to unwholesome employment. Surely such establishments do not deserve political favor, where land is abundant, and the people free."

The prospects of the manufacturing class were dark enough. Their political power had waned. Their opponents were strong, and likely to control the legislation of the country for many years. The Irish famine was indeed a blessing to us; opening, as it did, an outlet for all the breadstuffs that could be spared, and sending gold into the country. But these events were unexpected and temporary; and ere long gold began to flow eastward to pay the increasing European balance. Happily, the chasm occasioned by the outflow of the precious metals was filled by the newly discovered treasures of California. Nearly all the gold found there came to the Atlantic coast, remained for a short time, and then fled to Great Britain. Though only a small portion was retained in the country, the discovery had the unspeakable value of

<sup>1</sup> See Annual Report, December, 1849 (pp. 690-834), for a valuable collection of facts respecting the working of the law.



furnishing us with enough to pay a large portion of the balance due to foreign nations, thus averting for several years the ill consequences which otherwise would have followed increased importations.

Another cause contributing to the same end was the transfer of American securities in settlement of foreign indebtedness. Ever since the existence of our government they had been owned abroad in varying quantities. Most of the stock of the first United-States bank was thus held; also a large portion of the public debt, nearly all the three-per-cent certificates, and many of our railroad stocks, bonds, and other securities. In 1855 it was estimated that two hundred million dollars were held in foreign countries.<sup>1</sup> The transfer of so many securities had the effect of keeping coin in the country, although there was an annual return for interest, unless invested in other securities.

Though the outflow of gold was thus checked, the money-market became dearer, and the inclination to begin more undertakings was wanting. Said a competent authority in 1855, "Since the destruction of the old tariff, money has been hard to obtain, and business-men have been distressed, year after year, without intermission. The moment money becomes a little easier, away go the orders for foreign goods, to be paid for in specie."<sup>2</sup> Of course, the value of money was immediately enhanced, and debtors felt the renewed pressure.<sup>3</sup>

Every branch of industry suffered during this period; but the woollen-manufacturers suffered the worst. The

<sup>1</sup> Finance Report for Year ending 1856, p. 426.

<sup>2</sup> A Review of the Tariff of 1846, etc., Boston, 1855, p. 7. <sup>3</sup> Ibid., p. 14.

iron-manufacturers, indeed, saw gloomy times, and sustained heavy losses; but they were not so heavily handicapped as the woollen-manufacturers, who were obliged to pay more for their raw materials in consequence of the duties levied, and which were not recovered in the sale of the manufactured product. The tariff of 1846 raised the duty on imported wool to thirty per cent; while it reduced the duty on imported flannels and blankets to twenty-five and thirty per cent, and, on the coarser fabrics, to twenty-five per cent.

As these low-priced manufactures of wool were the chief in quantity and value manufactured at that time, the business was prostrated by the reduction of the duty. "The home market was destroyed for the farmer: in the foreign market he could not compete; and the flocks were sent to the slaughter because the woollen-factories had been sold at auction, or converted to other services."<sup>1</sup> In 1844 woollens yielded \$3,313,495 duties: in 1855 the national income from the same source was \$6,088,157, or nearly twice as great as it had been ten years before. Indeed, in 1857 the industry was declared to be on the "verge of extinction."

The cotton and iron industries had fared better. The American iron production for 1850 was \$60,485,655, while the foreign importation for the same period was only \$16,333,145. The secretary of the treasury declared that the conclusion was irresistible, that the production and manufacture of iron in the United States, within a very short period, would exclude the foreign production and manufacture. Of cotton, he added that already the

<sup>1</sup> Tariff Report, Aug. 11, 1856, No. 342, 34 Cong., first session.

American manufacturer was in possession of the home market for all the coarser fabrics, and beginning successfully to manufacture the finer ones.<sup>1</sup>

The drain of gold, however, in keeping prices down, and business sluggish, had the further effect, in due time, of diminishing importations. Sales slackened, and the importer wisely reduced his stocks. But having imported

<sup>1</sup> When Corwin, the secretary of the treasury, reviewed, in his annual report presented to the House, Jan. 20, 1853, the effect of the tariff on the iron manufacture, he remarked that "importations of bar, pig, and other iron, for the year ending June 30, 1845, were 102,723 tons, producing duties amounting to \$1,794,784; and for the year ending June 30, 1852, the imports were 435,149 tons, producing duties amounting to \$3,272,812. Thus it is seen, that, while the quantity imported has increased about four and a quarter times over that of 1845, the aggregate duties received are less than double the amount received from that source in 1845, and that, too, under a heavier rate of duty at the latter period.

"This enormous increase in the importations of iron, at prices so far below the fair or usual cost of production, both here and abroad, while it produced no corresponding benefit to the treasury, destroyed, in a good degree, the competition of our own producer and manufacturer. The result then foretold is now partially realized: the foreign producer, by a reduction of prices on his part, and of duties on our part, having possessed himself of the control of our market, raises the prices of iron, it is believed, beyond the remunerating point, and certainly far beyond the rates ruling during the period of the late hopeless struggle of our own manufacturer to sustain himself.

"The effects of this state of things are felt in the very large increase of duties consequent upon the suddenly enhanced prices of iron, which must be paid by our consumers, and with the most unfavorable influences upon our numerous railroad enterprises now in progress; while it is attended with no corresponding benefit to those whose capital, embarked in this branch of manufacture, has been totally lost. On the other hand, by this rise in the prices of iron, it may be expected that a new stimulus will be given to that branch of American labor, which may again be met by similar consequences when it shall have become a formidable competitor with the foreign producer, ending in a destructive reduction in price, and a redundant supply."



enough to satisfy the probable demands of trade, what then happened? "The New-York Evening Post," in a dry, business-like way, stated the consequence: "From the manufacturing districts in England the advices are, that, in the almost total absence of orders from this country for wool and cotton goods, the goods making for this market, which are always to some extent in reliance upon orders, will be sent here for sale on manufacturer's account." And they were sent here in due time, and pushed off in our markets, by the agents of manufacturers, at a lower price. This was not an altogether agreeable proceeding to those who had imported enough, as they thought, to supply the market; nor did they esteem more highly the foreign manufacturers who had thus treated them. Yet this event ought not to have been unexpected, for it had happened many times before.

As a revenue measure, and this is all the law purported to be, it was very effective. Indeed, the revenue far exceeded the general expectation and the needs of the government. Secretary Walker predicted that the law would yield annually \$23,500,000. But in the year 1847-48 the amount was \$31,757,070.96; for the year 1850-51, \$49,017,567.92; and five years later the amount had expanded to \$64,022,863.50, or nearly treble what was expected in the beginning. The revenue was excessive, and the expediency of lessening it was admitted by the opponents as well as by the friends of a protective policy.<sup>1</sup>

<sup>1</sup> In April, 1825, a writer in Niles's Register remarked, "The commerce of the United States, at least in respect to importations, has been increas-



But how should the reduction be made? Guthrie, the secretary of the treasury during President Pierce's administration, recommended in his first annual report that the free list be extended to embrace articles which the year previously had yielded a revenue of \$8,000,000, and that the remainder be arranged in two classes, — those in one class paying a duty of a hundred per cent; and those in the other, one-quarter as much. By this re-arrangement and equalization, he thought the duties on those two classes would be reduced \$4,500,000, beyond which reduction no other was expedient, previous to the extinction of the public debt. In his next report the subject was discussed more thoroughly, and a very considerable body of facts relating to the subject was presented. He threw a strong light on the question of admitting wool free of duty, in order to enable the American manufacturer to cope successfully with foreign competitors.

Those in favor of protection, however, proposed to

ing for more than a year past, notwithstanding the increase of our own manufactories, because, by the success of the last, the people are able to consume more. The duties secured at Boston in 1823 amounted to \$3,847,644, and in 1824 to \$4,193,112; and on the 11th instant, those bonded for at New York on that day were equal to \$750,000. The revenue of the present year will be very large; but whether it will render good or evil to the nation, we shall know hereafter. We have been fatally convinced that the public treasury may flourish while the people are verging to a general bankruptcy. Such is the nature of the system that we rely on, which must ever be the case when indirect taxation is mainly resorted to for the support of the government" (vol. xxviii. p. 98). At this time, orders were received in Philadelphia for shipping large quantities of pig-iron to England. The great demand for cotton goods in Mexico and South America caused a heavy advance in cotton, first in England, and afterward in the United States; and this event led to a general speculative rise in the price of nearly all commodities.

reduce the revenues in another way. This was by fixing them so high as to reduce importations, and thus diminish the revenue. They declared that a reduction of the duties had had the opposite effect, which the history of the tariff law of 1846 abundantly proved. Not so thought the majority. Accordingly, the duties were very generally reduced to the extent of twenty and twenty-five per cent *ad valorem*, with an enlargement of the free list.<sup>1</sup>

The next year the duties fell below the requirements of the government, and the expediency of increasing the revenue was considered. The unexpected decrease was regarded the effect of temporary events: hence the law was not disturbed for four years. Then, just as that terribly awful drama, the civil war, was to begin, the duties were increased to pay the indebtedness into which the nation, through inexcusable misgovernment during a period of general prosperity, had miserably fallen.

We have now traced the history of the revenue legislation of our government through seventy years of constitutional existence. We have sought to show what were the primary and also the secondary objects of this legislation, and how well or ill these were attained. We have seen that during the greater portion of that period the leading object of Congress was to encourage home manufactures. During the shorter period of fourteen years only, was the chief object to obtain a revenue. We have seen, that, however weak the faith of others in the efficacy of the government to aid manufacturers, theirs was never shaken. Moreover, having once received such

<sup>1</sup> Act, March 3, 1857.

aid, their faith that the government would continue to protect them never vanished. Did the government for a time reverse its policy, as in 1832, the manufacturers still believed that the arm of the government would be outstretched again in their behalf. Did the government forget them in 1846, they still cherished the hope that eventually her smiles and favors would return.

The least the historian can say, therefore, is, that protection, whether realized in legislation, or existing only in hope, at all times proved a stimulus to the manufacturer, leading him to embark in new enterprises, and to continue, even amid discouragements and losses, having faith in the coming of a more prosperous day. Whether the government were wise to establish a policy which should give birth to so many gilded hopes, it is not our purpose to inquire. That it did so, is a fact which constantly appears in the record of these seventy years.

When the news of the discovery of gold in Australia reached Europe, thousands swarmed thither, taking little thought of the dangers they were to encounter. The river wherein lay the richest deposits was surmounted on either side with high walls of rock, on which the sun shone, and whose rays, reflecting into the eyes of the miners, caused incurable blindness. In delving in the waters, too, amid an almost torrid heat, fevers were frequent and deadly; and the vast numbers who thus perished in their mad attempt to get gold were buried not far away from the scene, where their graves to this day testify to their folly. But neither blindness, nor fever, nor constant death, deterred the living from following the bewitching pursuit. A similar effect was produced by



the action of the government in granting protection to manufacturers. Thousands perished in the attempt to make their fortunes; but no failures, however great or awful, kept others from repeating the experiment so long as the government was on their side. Perhaps only ashes were in its hand: but the manufacturer thought otherwise; and, in his eagerness to grasp the prize, he persisted through suffering and loss, with a will, and often with a desperation, that revealed his latent fortitude, and his sublime faith in the power and willingness of the government to aid and to save. However dark the night, a higher tariff, it was believed, would dispel the darkness. For this he implored with the same earnest faith that Ajax showed when he prayed for light on Scamander's shore.

But was the faith of this great class, endowed for the most part with more than ordinary intelligence, in the power of the government to grant substantial aid, founded wholly in error? Such is the teaching of many. Governmental protection to manufacturers has often been declared to be an impossibility; and yet we find this class, at the end of seventy years' experience, believing otherwise, — indeed, having a much stronger faith in this doctrine than they had in the beginning.

What the government did for manufacturers, or failed to do, cannot be answered with perfect exactness, because there were always so many causes at work in harmony with or against its purpose. When the government put forth its energies to encourage and protect, we have seen how they were destroyed or neutralized by the operation of foreign agencies. Protectionists were always encountering surprises for which they were not prepared. What



would have been the effect of governmental action, had not counter agencies supervened, we shall not attempt to determine: we only note the fact, that, in consequence of their swift appearing and strenuous resistance, the well-intended efforts of the government were often set at nought.

In the foregoing pages, we have traced, though not so minutely as may be wished, the rise and progress of the most prominent of these agencies. Though some of them originated in foreign lands, yet it must be acknowledged that one of the most malign agencies was purely a native creation,—an excessive depreciated paper money, not resting on the solid basis of gold and silver. Whenever prices were borne aloft upon the Dædalion wings of paper money, the manufacturer never escaped loss. A plethora of paper money enhanced prices, and stimulated importations; and, when settling-day finally came, the country was drained of its specie, and only the dregs of paper money were left. Every industry is the expression of a universal industrial life; and, when misfortune overtakes one, the whole tree is affected. Like those lofty palaces of ancient Troy fired by the treacherous Greeks,—

“The palace of Deiphobus ascends  
In smoky flames, and catches on his friends;  
Ucalegon burns next.”

And the collapse of a circulating medium has always injured the manufacturing interest, in common with every other in the country. Next to the foreigner, an artificially swollen money has been the manufacturer's worst enemy. It has been powerful enough to neutralize the

effect of every tariff, however well-intended for protection. Pretending to be his friend, it has always proved to be his foe: subtle and seductive, like a serpent, in its movements in the beginning, nothing has been surer than its deadly bite in the end.

Yet, beside alluring persons to engage in manufactures, the government did accomplish something for them. It did at times certainly somewhat check importations, and thus give our manufacturers better control of the market. Had this never been the case, foreigners would not have labored so zealously to secure the repeal of those laws which were enacted for the special benefit of the American manufacturer. His eagerness to have them enacted, and the equal eagerness of the foreign manufacturer to have them repealed, are two luminous facts which converge at the same point: namely, that both classes believed, at least, that such laws restricted importations, and were therefore beneficial to one class, and injurious to the other. In no other way can their conduct be fairly interpreted. Whether their interests were actually hostile or not, they believed they were: and consequently the one class invoked the protection of the government, and the other sought in every way to prevent it, and to overcome it when granted.

The ability of the government to aid the home manufacturer, and the perennial belief that it would thus act, have been far more stimulating to him than is imagined, except by those who have candidly investigated the subject. The actual or expected course of the government has always been the cloudy pillar by day and the fire by night in the manufacturer's wilderness of trial and experi-

ment. When most prosperous, he has ascribed his prosperity to the magic influence of the tariff: when suffering the worst, he has always traced his adversity to the mistaken course of the government. The more prolonged its exercise of power, the stronger has grown his belief that the government can aid or injure him.

## CHAPTER VIII.

## THE TONNAGE REVENUES.

THREE objects were clearly kept in view in enacting the earlier laws regulating American commerce, — to protect and encourage the construction and employment of our own vessels; to reserve the coasting-trade exclusively for ourselves; and to nurture a numerous body of skilful and hardy seamen, not only as the necessary resource of our commercial marine in peace, but as the indispensable support of an efficient navy in war.<sup>1</sup>

For several years the Acts of 1789 and 1790 regulated

<sup>1</sup> In 1842 the committee on commerce, of which John P. Kennedy was chairman, made an elaborate and able report concerning the history and working of the navigation treaties negotiated between the United States and other countries. Referring to the earlier navigation-laws enacted by Congress, the committee remarked, "The system was avowedly and distinctively protective of the interest it had in charge. It was a system of restrictions upon the commerce and shipping of foreign nations for the benefit of our own. The American ship-owner was guarded and protected against the competition of the whole world by discriminations in his favor, in the duties both on merchandise and tonnage, as well as in the port charges, and other expenses of his voyage; provision was made for the encouragement of American seamen; and the system was administered with a strict and jealous regard to the privileges which it conferred. If the severity of these restrictions was occasionally relaxed in favor of particular nations, it was never without a specific equivalent; and the subject was left at all times at the disposal of the government, to be controlled by the legislation of Congress, as the occasion might demand." — No. 835 27 Cong., second session.



mainly the tonnage duties on foreign and American vessels. Occasionally a treaty was made with a foreign power, containing a clause which placed its commerce on the footing of the most favored nations "in regard to commercial advantages." No pledge, however, was given against such discriminations as might be found necessary to promote our own trade, further than an agreement that they should not be applied to the party with whom the negotiation was made, without also applying it to all other nations. The system thus established was continued until 1815, when a new policy was adopted.

Until the troubles arose with Great Britain, the wings of American commerce joyously flew over every sea. Not only was the entire coasting-trade secured to our country, but a carrying-trade with the West Indies and the British Possessions, the East Indies and almost every part of the world, suddenly grew to vast size and importance. Wars among European powers, and blockades, obstructed their channels of commerce, but favored the spread of our own. Our sails multiplied as theirs withdrew. During the years 1805, 1806, and 1807, the annual quantity of foreign produce carried in American vessels was enormous.<sup>1</sup> These transactions added vastly to our national wealth.

When peace came, the scene was greatly changed. It was evident that a new and more powerful rivalry for commerce was likely to spring up among all maritime nations. Great solicitude was therefore experienced in this country for the adoption of such a system as would best secure, permanently, our commerce against the rivalry of other nations.

<sup>1</sup> Pitkin's Statistical View, p. 143.

Our chief rival was Great Britain; and, as it was believed that we could navigate the ocean with equal advantage, a treaty was proposed establishing certain privileges of trade and navigation on the basis of reciprocity. The proposition was accepted by Great Britain, but with a scrupulous exclusion of her colonies and other foreign possessions. The treaty was signed the 3d of July, 1815, and was the first reciprocity treaty between the two nations. It was limited to four years, and was then extended for ten years longer, with an indefinite continuance, subject to one year's notice of the desire of the other party to annul it.

The principal stipulations in this treaty were, that no higher or other duties or prohibitions on imports or exports, respectively the growth, produce, or manufacture of the British territories in Europe on the one side, or of the United States on the other, should be laid by either party against the other, than were laid on similar articles which were the growth, produce, or manufacture of other nations; secondly, that the vessels of each nation should be admitted into the ports of the other on the same terms, in regard to tonnage duties and charges, as their own; and, thirdly, that the same duties were to be paid in the ports of each, on importations which were the growth, produce, or manufactures of the other, whether imported in British or American vessels.

The treaty was regarded an experiment. The restriction of its application, on the British side, to British territories in Europe; the rigid exclusion from it of any arrangement for trade with her colonies; and the limitation of the privileges to commodities which were the

growth, produce, and manufacture of the contracting parties, — show with what caution, and even distrust, this first departure from the old system of international commercial regulation was adopted.

How did the treaty affect the commerce of the two nations? On the side of Great Britain, it has been generally acknowledged that it was an unequivocal good. On the American side, opinion has been divided; yet opposition was not strong enough in the United States to prevent a renewal of the treaty: on the other hand, no treaty of the kind was made with any other nation for more than ten years afterward.

Trade began to decline soon after the treaty took effect, with the West Indies and in other quarters. A great cry was heard in favor of modifying the treaty; so that American vessels might be permitted to take cargoes to the West Indies, and the British Possessions in North America. From these great highways of trade, Americans had formerly derived large profits; and they did not relish the action of the government requiring them in the future to go elsewhere. Complaints were unceasing. Finally, in 1830, a modification was effected called "McLane's arrangement." This consisted in allowing our vessels to take cargoes to and from the British colonial ports; but the desired effect of this arrangement was at once destroyed by a change in the duties, whereby merchandise shipped in American vessels was subjected to a very much higher duty than when transported in English ones.

Sabine<sup>1</sup> truthfully describes how our trade was affected

<sup>1</sup> N. Am. Rev., vol. lvii. p. 318.



by this arrangement. First, it was a serious injury to our cotton ships. The building of vessels in New Brunswick and Nova Scotia, for sale in England, was an extensive business; and he had known vessels built for this purpose to go to a cotton-port at the South, on their voyage home, and obtain freights which netted a fifth or quarter of their entire cost. So, too, when cotton paid well, the ships which were built for use in the lumber-trade, and which were ordinarily employed in this way, were to be found at Savannah or New Orleans, accepting an eighth or a sixteenth of a penny less on the pound than our own vessels. Nor was this the whole of the mischief: since colonial ships often went in quest of cotton when the rates were low; and others, by increasing the number of freighters, induced competition, which resulted in loss to all. Before the "arrangement," no such interference existed; because colonial vessels did not carry cotton at all, while those belonging to the mother-country could load with it if they entered a colonial port on their way to the United States.

Had there been any thing to compensate for this loss, it might have been borne; but there was not. The earnings of colonial vessels were taken from the earnings of our own ships. To be thus underbidden in our own ports, in the carrying of our great staple, was not a business which the American could cheerfully contemplate; nor are we surprised, therefore, to learn of Sabine expressing the hope that this kind of reciprocity would speedily terminate.

This arrangement seriously injured our coasting business. Nor did it secure to New England a proper share



of the trade in supplying the British West Indies with the commodities which the United States could spare, and which were sent to the sugar-islands of other European powers. The trade of the planters was a boon greatly desired, but since 1830 how much of it had the Northern States obtained? One flash of light will disclose the situation. An American house resolved to send to the Island of Trinidad a brig of their own, and a colonial brig which they had chartered, both laden with lumber. They procured the material from Maine, where it was grown, and prepared for market. The lumber for their own vessel was, of course, laden in American waters; but that designed for the other was taken in raft to a neighboring port of New Brunswick, within sight of their counting-room windows. The two vessels put to sea the same day, and their cargoes were sold at a similar price. The earnings of each vessel, on the principles of reciprocity, ought to have been alike, or to have differed only in proportion to the size of the cargo; but an adjustment of the accounts proved that the voyage under the British flag produced eight hundred and ninety-three dollars more than that conducted under the American.

Notwithstanding this inequality in the navigation laws of the two nations, Great Britain did not repeal hers affecting the colonies until June 26, 1849, — thirty-four years after repealing those which concerned the direct trade with the United States. The new law placed the colonies in the same position with that occupied by Great Britain, with perhaps even greater freedom; for, while the coasting-trade of the British Island was still exclusively reserved to British ships, the Legislature of each

colony might, by addressing her Majesty, procure a permit to throw its coasting-trade open to foreigners.<sup>1</sup>

At last, therefore, freedom of trade was won with Great Britain. But the struggle had been long, costly, and disastrous to the owners of American shipping. In the treaties negotiated, Great Britain had unquestionably been the gainer. Let us now turn to the regulations established with other nations.

Just before making the treaty with Great Britain in 1815, Congress passed an Act repealing all discriminating tonnage and impost duties with respect to foreign vessels and those of the United States, so far as they concerned the produce and manufactures of the nations to which such foreign ships might belong. This repeal was to take effect in favor of any foreign nation which should abolish similar duties in favor of the United States. In 1824 Congress declared the suspension of all discriminating duties on the vessels and produce of several European nations which had accepted the terms proffered by the Act of 1815, and conferred on the President authority to extend the several exemptions to all nations thereafter complying with its requirements; and in 1828 an Act was passed, authorizing the President to extend the exemption in regard to alien duties, which, by the Acts of 1815 and 1824, were restricted to the productions of the country to which the vessels belonged, and to the productions of any foreign country imported into the United States in the vessels of any nation which would allow a similar exemption in favor of the United States.

Many of the Northern European States took advantage

<sup>1</sup> Dem. Rev., vol. xxvi. p. 65.

of these requirements to comply with them; and thus gradually the commerce of the United States with other nations was placed on the same legal foundation. But whether there was as strict equality in other respects as in law, is another phase of the matter. It has been contended there was not. It has been asserted that the vessels of Northern Europe could be built and manned and navigated cheaper than ours, and therefore that they had a real advantage over those of the United States in competing for the commerce of the world.

But if inequalities did exist in these regards, what caused them? Were they not the inevitable effect of the tariff-laws which Congress enacted? And if they were, then our conduct can be explained in only one of two or three ways: first, that it was more important to build up and protect our manufactures than our commerce, and therefore, if we could not do both, it were better to let our commerce go; but, secondly, does not the history of our navigation-laws show that we did expect to compete with foreign nations, hence our eagerness to extend reciprocity? thirdly, that our government suffered Great Britain and other nations to get the advantage, and did nothing to prevent it; fourthly, notwithstanding the tariff-laws, could not the people of the United States have held more of their foreign commerce if the same interest and attention had been given to its preservation and extension which England displayed in preserving and extending hers?

If our negotiations with Great Britain did not bring forth the fruit desired, surely our trade regulations with Spain, and especially with her West-India colonies, were



causes of constant irritation to those engaged in commerce. From the time of opening trade with Cuba until 1832, American vessels were obliged to pay in the ports of that island the enormous duty of two dollars and a half per ton. After that date, however, the duty was reduced two-fifths. But in the ports of Porto Rico the tonnage-duty was only one dollar, although the duties at both islands were levied by virtue of a royal order of the Spanish Government. It was supposed by American shippers for a long time that this great inequality arose from a misconception of the order of the intendant of Cuba. The inequality had existed in practice ever since the opening of trade with Cuba; and it was conjectured, in 1839, that the merchants of the United States had paid by that time, in the form of extra tonnage-money, in the port of Havana, two million dollars. There is another fact equally singular: while a duty of one dollar per ton was levied on American vessels in the ports of Porto Rico, no higher duty than sixty-two and a half cents was levied on English, French, and foreign vessels. Thus our commerce in the Spanish colonial ports was placed in a far worse plight than that of other foreign nations.

In 1834 an American vessel of one hundred tons paid a hundred and sixty-seven dollars more as tonnage-duty when entering a Spanish port, than did a Spanish vessel of the same size when entering an American port. Surely a difference so great tended to prevent American commerce from competing with Spanish vessels.

Still worse things must be told. At one time the difference between the rates of duty charged on importa-



tions in Spanish and American vessels, on some articles, was from thirty-three and a third to fifty per cent in favor of the former. Moreover, the duties on rice and flour, our two principal articles of export to Cuba, had been increased by the Spanish authorities; while the duty imposed by our government on coffee and molasses, the two principal commodities of the island, had been greatly reduced. Coffee, indeed, had been admitted for some years duty free. The difference in the export duties at Havana, in favor of Spanish vessels, was two per cent; foreign vessels having to pay four and a half per cent *ad valorem*, while Spanish vessels paid only two and a half per cent *ad valorem*.

To get square with the Spanish Government, Congress, after delaying until 1832, declared that Spanish vessels coming from the colonies of Spain should pay in the ports of the United States the same rate of duty on tonnage as American vessels were required to pay in Spanish colonial ports. The secretary of the treasury was authorized to fix the amount, and issue regulations for collecting it. As this law was not deemed entirely adequate, two years afterward the committee of commerce introduced a bill authorizing "the secretary of the treasury to collect such additional tonnage upon Spanish vessels entering the ports of the United States from Cuba and Porto Rico as shall be equivalent to the discriminating duty that would have been imposed upon the cargoes of such vessels, respectively, if the same had been exported from Havana in American bottoms; and also upon Spanish vessels clearing out from the ports of the United States such additional tonnage duty as would be equiva-

lent to the discriminating duty payable upon their cargoes, respectively, if imported into Havana in American bottoms." A law was passed in conformity with this recommendation, which proved effective in putting all engaged in commercial intercourse between the two countries on the same basis.

## CHAPTER IX.

## WAREHOUSING AND DRAWBACKS.

TEN years had gone under the new constitution before any method was adopted whereby importations could be stored previous to the payment of duties on them. In 1799, however, an Act was passed allowing fifteen days to vessels arriving from foreign ports to discharge their cargo. Any goods remaining on board after that time, beside those which were reported for entry in another collection district or foreign port, the collector was required to take and store. The same law also provided, that, after a notice of five days to the collector, any goods might be taken and stored with the consent of the owner or consignee, or master of the vessel.

Importers were not required to pay cash, unless the duties were less than fifty dollars, until 1832; nor even then whenever they exceeded two hundred dollars. The importer could give his bond payable at periods varying from three to twelve months, determined by the nature of the merchandise, and the country whence it was imported.

This was the system established by the law of 1799, the chief characteristics of which still exist. An exception, though, was made with respect to teas. These could be put in such stores as were mutually designated by the

importer and inspector of the revenue. In such cases, bonds without sureties were taken for double the amount of the duties, payable in two years. Collectors were also authorized to receive goods on deposit, to secure the payment of duties as a substitute for sureties on bonds. If the importer, therefore, did not wish to give sureties, he could give his own bond, and take his merchandise, leaving with the collector a sufficient quantity to insure the payment of duties on the whole.

Under the system of credits thus established, there was no strong inducement for storing goods. Such as were found on board of vessels, after the time specified for unloading, usually possessed no great value. The five-days' notice provision, previously described, was adopted for the benefit of vessels engaged in trade, to enable them to commence their return-voyage without delay, and especially for the benefit of packets. They would put in what was called a five-days' order for the purpose of unloading, and sending their cargoes to the public stores, without waiting for them to be appraised, weighed, measured, and gauged.

Goods thus deposited could remain in store nine months, unless the duties chargeable on them became due in a shorter period: in that case, a sufficient quantity could be sold to discharge the duties on the whole. The residue was sold at the end of nine months under proper regulations in regard to advertising, their appraisal by merchants, and other particulars essential to insure a fair sale. The proceeds, after deducting the duties and charges, were put into the treasury, and afterward given to the owner as soon as he proved his right to receive the same.



Such was the earlier warehouse system, which was quite satisfactory so long as the government allowed an ample term of credits on imports. But when the time for paying duties was narrowed, especially after 1832, importers desired greater privileges to store their goods before discharging the claim of the government thereon. Accordingly, the Committee of Ways and Means reported, in 1834, that importers ought to have the privilege of placing their merchandise of every description in the custody of the customs officials for twelve months, and to withdraw it when demanded for consumption: in other words, they recommended the adoption of the English system of warehousing, which had been copied from the Dutch. They further declared, that importers ought to be allowed a credit of three and six months for the amount of the duty from the date of withdrawal; but Congress did not heed their recommendations.<sup>1</sup>

In 1842 a radical change was made in the payment of duties. The law declared, that, in all cases of failure or neglect to pay duties on completing the entry, the goods should be deposited by the collector in the public store. If the duties were not paid in sixty days, or ninety days if imported beyond the Cape of Good Hope, the goods, or a sufficient amount to pay the duties, must be sold at auction, after an appraisalment by the general appraisers. Moreover, under the old system, interest was not exacted during the period for which credit was given: under the new system, interest was charged from the time the duties accrued until they were paid.

From this change several noteworthy consequences

<sup>1</sup> No. 195, 24 Cong., second session.

followed. The effect of forbearing to demand duties when goods were entered had been equivalent to a cash capital to the merchant for a similar amount during the period of forbearance. "It was," says Senator Dix, "unquestionably a valuable mercantile facility for those who had the benefit of it, and the discretion to employ it judiciously; but it had its public inconveniences, and it was very properly abolished." It was foretold, when the change was introduced, that great hardship would follow, unless importers were permitted to store their goods for a season, and relieved from paying duties during the interval. But the period for storing them was shortened, instead of lengthened. The change, too, occurred simultaneously with a heavy advance in the rate of duties.

"It is a singular fact," said the same authority,<sup>1</sup> "and one which is not easily to be accounted for on any principle of public utility and convenience," that the changes in the tariff should have occurred at the very time when "this extraordinary and violent transition took place from credits to cash payments." But it is not difficult to understand the cause of these changes. They were truthfully stated by the committee on commerce in 1843, when considering the expediency of establishing the warehouse system. "There seems to be a general consent of opinion at this day," the committee say, "that one of the most mischievous agents which have been at work in producing the embarrassments under which trade has struggled during the last five or six years, has been the tendency to excessive importation, produced in no

<sup>1</sup> Speeches and Addresses, vol. i. p. 112.

small degree by the stimulus administered to it through the laws for regulating the introduction of foreign goods, especially in the large list of importations which were admitted free of duty; that this tendency was signally aggravated by the vast amount of importation on foreign account, and the transfer of the business of foreign commerce from the American to the foreign merchant. It is a prevailing impression, which seems to be well supported by facts, that the American market has been greatly disturbed by the influx of large amounts of foreign merchandise thrown into it, chiefly from England, France, and Germany, upon foreign consignment, under circumstances requiring early sales at auction, without regard to any fixed rate of profit (even in view of certain loss), for the sake of speedy remittance of the proceeds; that these consignments, being often the surplus stocks of the nations from which they came, were made without calculation of gain, and were sent to this country only because it is deemed more to the interest of the nation producing a surplus to dispose of it in a foreign market than its own." To prevent the recurrence of this evil, two remedies had been proposed and adopted at the previous session of Congress,—a diminution of the list of goods admitted without payment of a duty, and the payment of duties in cash. The committee had faith in these remedies. Their only apprehension was, that they might prove a greater check to importations than was desirable.<sup>1</sup>

But though ineffectual in checking importations, these measures did have the unwelcome effect of transferring the business of importing to persons who possessed large

<sup>1</sup> No. 103, 27 Cong., third session.



capital, and smaller importers were obliged to retire. The dissatisfaction of the latter class was very great. Nor did it cease, until Congress established the warehouse system, the leading features of which were, that goods could be imported and put into warehouses, and kept there until needed for consumption, when they could be withdrawn, and the duties paid as though they had never been warehoused; or they could be withdrawn, and exported to other countries, without cost, save that of storage and incidental charges. Such a system had long been established in Great Britain and in other countries. Though several attempts were made to pull it up, the plant soon grew into a tree, and long since was strong enough to defy successfully every storm.<sup>1</sup>

The repayment of duties was allowed, by the Act of 1799, on all goods exported within twelve months to any foreign port except the ports of any foreign state immediately adjoining the United States. The purpose of this Act was to increase our navigation. It was a wise measure; for "otherwise the tax," as Livingston of Louisiana said, "instead of falling on the consumer, would have rested on the importing-merchant, who, on re-exporting the merchandise, must have done so with the load of the duty he had paid."<sup>2</sup> Indeed, a different policy would have banished all the transit trade from our harbors, confined our importations strictly to the amount needed for consumption, and forced our merchants, whenever they carried the produce of one foreign nation to the ports of another, to go abroad to make up their cargoes. The drawback system

<sup>1</sup> Private bonded warehouses were established March 28, 1854.

<sup>2</sup> Cong. Debates, vol. i. pp. 560, 564.



realized all the advantages which were expected to accrue from its establishment, — it greatly increased the carrying-trade, gave scope to the enterprise of our merchants, enabled them, by assorting their cargoes at home, to compete in foreign markets with the merchants of the countries from which the commodities composing such cargoes were brought.

In 1816 another advance was made in allowing drawbacks on exported merchandise manufactured from imported materials which had been subjected to a duty. Previously there had been a drawback on all refined sugar exported to other countries. A bounty of twenty cents a barrel on pickled fish exported had been given, which was supposed to be equivalent to the duty on the salt used. This was essentially the same thing as a drawback. The Act of 1816 covered drawbacks on refined sugar and spirits. On the latter a drawback of six cents a gallon was allowed, and ten cents a gallon if made from molasses of foreign production. On sugar, in addition to the drawback previously allowed, there was an increase of four cents a pound if refined from an imported product. The same principle was afterward extended to plain silk cloths imported which were colored, printed, stained, dyed, stamped, or painted here, and to hemp imported which was afterward manufactured into cordage.<sup>1</sup>

Some of these enactments were grossly violated, espe-

<sup>1</sup> Act, May 22, 1824, 18 Cong., first session, chap. 136. On many occasions Congress passed Acts allowing importers the benefit of drawback in cases where they had omitted, unintentionally, to comply with all the formalities of the law; like going to the custom-house and taking oath, and giving bond within the ten days required by law. A large number of cases is given in a report made in 1844, No. 489, 28 Cong., first session.

cially the drawback allowed on brandy. Casks containing imported liquor were filled with liquor of inferior quality, and then exported. In a single city thirty or forty of such empty casks, accompanied by the certificates of the importers, were sold daily to the distillers, who filled them with a very different kind of liquor, and exported them.

This drawback privilege did not extend to every port. Nor could merchandise carried coastwise in any other way than by sea get a drawback; but after a time an innovation was made in this regard. Merchandise could be carried between certain places, partly by land and partly by water, and yet be exported with the privilege of drawback. An attempt was made to apply the principle everywhere, but failed. The favored ports were opposed to widening the operation of the law. This opposition was based on purely selfish considerations. Even as late as 1836 there were flagrant defects and inequalities existing.<sup>1</sup>

These difficulties were finally overcome; and, last of all, Congress permitted the sending of Canadian goods through the country, to foreign countries, on the same conditions as were prescribed for the owners of other goods. Slowly was this change effected. It was a notable advance, and ought to have been made long before. Congress has always been a languid reformer.

<sup>1</sup> No. 399, 23 Cong., first session.

## CHAPTER X.

## COLLECTION OF DUTIES.

THE principal law by which duties have been collected for more than eighty years, was passed in 1799. But it was impossible to legislate for all contingencies. As these occurred, amendments were sometimes passed, though too often Congress took no note of them. At almost every session, however, amendments were made, until they numbered over four hundred. Then Congress undertook the work of codification, — a work as difficult to perform as it was necessary both to the government and to the importer. The secretary of the treasury was authorized to prepare such a code. He performed the task with commendable thoroughness. Notwithstanding a favorable report from a committee of Congress, the code was not adopted. Again and again was the attempt made, only to fail, until the revision of the entire body of statutes in 1874.<sup>1</sup>

One of the earliest questions raised in collecting duties related to the application of the *ad valorem* principle. Hamilton was opposed to applying it, because there would be stronger temptations to defraud the revenue. In 1816 the *ad valorem* principle was extended, and still further

<sup>1</sup> See House Report on Need of Codification, March 3, 1855, No. 145, 33 Cong., second session.

in 1824; but not long afterward evil fruits began to appear. All universally admit the beauty and fairness of the principle, if importers will act honestly in telling the government of the cost of their importations. Unhappily, the temptation to do otherwise in many cases cannot be resisted. Whenever applied, frauds have followed. Doubtless, under any system of collecting a revenue, frauds are committed; but they are not so easily committed when specific duties are levied as when duties are assessed on the value of importations. Such was the well-known result of the American experiment in 1832;<sup>1</sup> yet at that time, in full blaze of the light of the past, a wider sweep than ever was given to the principle.

For four years after 1842 the application of the prin-

<sup>1</sup> "The foreign manufacturer consigns his goods to the agents whom he sends here, at a price thirty-three per cent less than he sells them to the American merchant; and, if questioned on this invoice by our officers, his reply is, that he charges our merchants a profit, and that his invoice is the cost of the manufacture of the article.

"A gentleman in the city of Boston who formerly imported six hundred dozen calf and morocco skins has already been driven from the trade by the advantage which the foreign agent possesses over him in introducing goods at less duties.

"Again: the French manufacturer wishes to send an invoice of boots to this country. He has them packed in cases, sends them to some village a few miles from Paris, and at a few hours' notice sells them at auction. His agent is the only bidder: he buys them at a price which saves him seventy-five per cent of the duty he would have paid on the true invoice. Still his invoice is true, sworn to by the auctioneer, and our laws can charge him with no wrong.

"As *ad valorem* duties are upon cost and charges, the foreign importer has another advantage, as he can get his goods clear of port ten per cent cheaper than our merchants, giving him an advantage of ten per cent, and the duty on it besides."—Report of Amasa Walker and others on Leather Manufactures, 1842, 62 Niles, p. 68.



ciple was somewhat checked; but when Walker became secretary of the treasury, in 1845, he advocated more strongly than ever a return to it. The duties by his recommendation were made entirely *ad valorem*, and they continued to be until 1861. Then specific duties were restored in many cases; though in some a mixed or double duty, partly specific and partly *ad valorem*, was applied.

The frauds perpetrated in consequence of adopting the *ad valorem* principle were so great, that many importers, ere long, were driven from the business. To prevent these, the plan of a "home valuation" on all imports was adopted in 1832. Ingham strongly recommended this.<sup>1</sup> He declared, that so long as the current value, or rather the invoice price, of goods in the foreign market, was made the basis on which duties were laid, peculiar advantages would be given to those who had the best opportunities for purchasing or making up invoices at rates below the current value. Not only would they purchase at lower prices, but their duties would consequently be lower. Foreigners, therefore, possessed this double advantage over Americans. The inevitable effect of the system was to throw an extensive branch of the importing business into the hands of foreign merchants,—who could always lay in their goods on better terms than American houses having no connection abroad,—and into the hands of those, who, whether foreign or American, were the least scrupulous of the means of gain. A home valuation, he declared, would not vary the principle on which import duties were presumed to be laid, and would be simply an extension of the custom which had

<sup>1</sup> Annual Treas. Report, December, 1830.

long prevailed among the most commercial nations of Europe. Moreover, he strongly believed in the practicality of such a valuation.<sup>1</sup> This mode of valuing imports subject to an *ad valorem* duty was incorporated into the tariff of 1832, but was not to be employed for ten years. Before that time came, opposition to trying the experiment was so strong, that Congress repealed the law. During President Pierce's administration it was proposed to apply the idea, but Guthrie, the secretary of the treasury, was opposed to it, and furnished cogent reasons why the experiment should not be tried. Guthrie's views prevailed; and since his day no one has had the hardihood to champion the idea.<sup>2</sup>

It was early discovered that the collection laws were very unequal in their operation. Thus, only a few ports were open for the discharge of goods which were brought from beyond the Cape of Good Hope. In 1839 Massa-

<sup>1</sup> "Ordinary experience, skill, and attention, on the part of the proper officers, will enable them to determine with all necessary accuracy the current value in their own vicinity; and the mass of information which might readily be collected to correct error, if any should be made by them, could not fail to secure a just and equal appraisalment. This being accomplished, the government will receive the whole duty paid by the consumer, and no more; the price of the goods will be more steady; merchants will be exposed to less hazard; and the opportunity of fair competition between the American and foreign merchant, so far as it can be effected by the action of the government, will be restored to that equality which a liberal policy cannot deny to foreigners, and which a wise government will always desire to secure to its own citizens."

<sup>2</sup> In 1841, while the tariff was undergoing re-adjustment, Forward expressed his strong conviction of the impracticability of a home valuation; and so did his successors whenever discussing the subject. Guthrie handled the subject very thoroughly in a letter addressed to the Speaker of the House, written in June, 1856. See Finance Report for year ending June, 1856, p. 653.

chusetts had nine ports of entry, of which eight were open for the discharge of goods coming from every quarter of the world. On the coast of Maine were twelve ports; yet in only four could goods purchased east of the Cape of Good Hope be discharged. The Constitution had declared that no preference should be given, by any regulation of commerce or revenue, to the ports of one State over those of another. In each Atlantic State there was always one port open for the commerce of the world, without restriction; but why were not all? In 1838 Congress attempted to give similar privileges to all ports in importing goods. The committee who reported on the subject declared there was no justice or propriety in retaining the distinction, yet many years elapsed before equality was granted. Of course, the ports enjoying the largest liberty, and getting the most trade, fought against the extension of the privilege; but there was no just reason whatever for permitting the inequality after its discovery.<sup>1</sup>

Very serious consequences, also, have arisen from a wrong or imperfect interpretation of our revenue-laws. The secretary of the treasury prescribes how they shall be executed, and consequently is the first interpreter of them; but an appeal lies from his decision to the Federal courts, who are the final interpreters. How often have embarrassments and losses occurred in consequence of varying decisions at different ports on the same article of merchandise! At one time a deduction of five per cent on the invoices of broadcloths for measurement was an established usage of trade. This usage was mentioned in an instruction issued by the treasury department<sup>2</sup> to the

<sup>1</sup> House Report No. 304, 25 Cong., second session.    <sup>2</sup> Sept. 9, 1828.

collectors of the various ports. But the instruction was construed in two ways. At some custom-houses the deduction was made from the measurement; at others, from the cost. In consequence of this dissimilar application of the instruction, different rates of duties were imposed. Then the treasury department issued a second instruction, announcing that the five-per-cent reduction was on the "measurement," and not on the price. A higher duty, therefore, was collected, than would have been if the deduction had been on the price or cost. Importers who had ordered goods which had not arrived previous to issuing the second instruction were obliged to suffer; nor could they get any relief.<sup>1</sup>

In consequence of varying interpretations of the law, and of changing the instructions of the treasury department, unequal rates of duties not infrequently have been collected on similar articles at different ports. Whenever an importer has paid the duty demanded, and has obtained his goods and a clearance from the custom-house, by no subsequent instruction from the secretary of the treasury could he be compelled to pay more; but, if he had paid an excess, that could be refunded. Very many vexations and losses have arisen from this cause.

Not infrequently the officer of the government has doubted how to assess a duty. One of the most troublesome cases of that kind in the history of the treasury department related to the assessment of duties on so ordinary a substance as cotton bagging. The opinions of different appraisers and collectors were obtained by the secretary of the treasury concerning the true mode of

<sup>1</sup> Annual Report of Sec. of Treasury, December, 1829, pp. 11, 12.



assessing it.<sup>1</sup> To the ordinary reader it might seem that there could be but little occasion for disputings about such a matter; but there truly was, and the different modes of assessing the duties yielded very different and very important results.

One of the most successful frauds ever practised related to the importation of sugar. Molasses and sirup bore a lighter duty than sugar; and the fraud consisted in boiling cane-juice nearly to the point of crystallization, or else of dissolving clayed sugar, white or brown, in steam or boiling water, and holding in solution the largest possible quantity of sugar. This fraud was not only injurious to the government, but also to the honest importer. When the knowledge of this fraud became known to an importing-house in New York, they wrote to the secretary of the treasury, "If this technical difference in the mode of preparation should be recognized as conclusive, in reference to the new article, an early notice to that effect is earnestly solicited, that we may, by the introduction of a similar article, be enabled to withstand the ruinous competition to which we, in common with the rest, shall otherwise be inevitably subjected." Thus awakened to their duty, the officers of the government finally stopped the perpetration of so base and injurious a fraud.

The secretary of the treasury has been required to interpret not only the laws, but also the treaties, relating to the revenues. In interpreting the latter, some very difficult questions have arisen. Sometimes the meaning of the treaty has been clear enough to persons generally,

<sup>1</sup> See Senate Doc. No. 104, 22 Cong., first session, especially Affidavit of Importers, p. 11.

though not to the secretary. One of the most noteworthy cases of this kind was Secretary Bibb's coffee decision. He decided that coffee brought in Netherland vessels could be admitted duty free, and ordered all duties collected on it to be refunded; while that transported in American vessels must pay a duty of twenty per cent. The decision caused much irritation, nay, disgust. An intelligent foreigner, writing from Rotterdam about the decision, remarks, "You see that our Dutchmen do not believe that such a liberality in favor of their ships, as is written about from your side, can be meant in earnest, as they ship the coffee by American vessels: it would indeed be a masterpiece of diplomacy, on the part of the Dutch negotiator at Washington, if the coffee were free in Dutch vessels, and not in your own. But it is looking, indeed, too absurd, or altogether impossible; and we expect with you, that, if the duty is returned on importations by Dutch vessels, your government will not refuse this advantage to their own flag."<sup>1</sup> Though a lawyer, Bibb's age and tardy study of finance may be pleaded in excuse for making such a decision. Congress, it is true, reversed it; but much harm had been done, and the pride of the country was lowered by the absurd and costly action of the secretary of the treasury.<sup>2</sup> The duties collected on coffee imported in American vessels were refunded by

<sup>1</sup> 7 Niles, pp. 39, 40, 144.

<sup>2</sup> It is worthy of remark, that, notwithstanding the importance of the secretary's action by which he annulled a provision in the tariff-Act of 1842, and directed a large sum to be refunded to the importers, he said nothing about these things in his annual report. Two reports were made on this subject which can be profitably studied, — No. 534, 28 Cong., first session; and No. 188, 28 Cong., second session.

order of Congress, and thus the revenue from this source was wholly lost.<sup>1</sup>

Bad enough was this case, but not the worst. For many years certain duties had been levied on Madeira wines. Bibb found a clause in the treaty with Portugal which he declared admitted of a different interpretation from that given to it by his predecessors; and accordingly he ordered a reduction of three-fourths of the duty, and that the excess collected should be refunded. The sum was very large, and the inquiry sprang up, who ought to receive it. Says Niles,<sup>2</sup> "The theory of some people is, that the consumer pays the duty. Our merchants have bought their wines with the duty on, and sold them to the people of this country at prices accordingly. The importer, it is fair to presume, made a fair profit; and now, after the duty is thus levied, collected, and paid by our people, and the wine all drank up, the people of this country are by this decision called upon to pay three-fourths as much more out of their treasury to refund these said duties. Is it not a hard case? The money goes where? Into the pocket of the importer, who has already had his profit."

In paying duties, importers were permitted for half a century to give their notes, whenever the sum exceeded fifty dollars; but the law was often a puzzle in regard to the length of time for which they could be given on various kinds of imports. On those from the West Indies, except salt, or from other places north of the equa-

<sup>1</sup> Aug. 3, 1846, 29 Cong., first session, chap. 75. The duties refunded included the period between Aug. 30, 1842, and Sept. 11, 1845.

<sup>2</sup> Vol. lxxvii. p. 39.

tor, and along the eastern shore of America or its adjacent seas and other waters, the notes were payable, one-half in six months, and one-half in nine months; on salt, nine months; on wines, twelve months; on all goods imported from Europe, except wines, salt, and teas, one-third in eight months, one-third in ten months, and one-third in twelve months. On teas a longer credit was given, which caused a heavy loss to the revenue. Experience proved, too, that long credits stimulated speculation, which was not less ruinous to the speculators themselves than injurious to the government.

In 1820 an attempt was made to shorten credits on importations, but the movement was strongly resisted. It was regarded as "hostile to the general interests of the commercial community, and especially of those young merchants who were beginning their career with more enterprise than capital." Its effect, if not its object, was declared to be "to curtail the importation of foreign manufactures by diminishing the facility of importing them."<sup>1</sup>

When Ingham was secretary of the treasury, he recommended that the term of six, nine, and twelve months be adopted as a fair average of existing credits. In 1832 the law was so changed, that the duties on wool, woollens, and all merchandise of which wool formed a part, were required to be paid in cash without discount, or, at the option of the importer, be stored under bond at his risk, subject to the payment of the customary storage and charges, and to the payment of interest from the date of importation. On all other merchandise, the duty, if not exceeding two hundred dollars, must be paid in cash; if

<sup>1</sup> See Austin's Article, *N. Am. Rev.*, vol. xii. p. 60.



exceeding that figure, be paid or secured in the manner formerly required, — one-half payable in three months, and the balance in six. The law also provided, that, when any instalment of duties became due, enough merchandise should be sold at public auction to pay them, if this was not done by the importer.

These changes were not easily effected. Importers were opposed to them, and sought to modify them. They preferred the old system of getting credit from the government rather than from individuals. Certainly the old way was easier for them. But an event occurred which blasted forever all hope of change. When Ingham was at the head of the treasury department, he strongly recommended that importers should be required to substitute other persons as principals on bonds given to secure duties, whenever their own names were affixed to similar bonds due and unpaid. Congress did not heed this wise recommendation until the financial crash of 1837 had wrecked the importers, and prevented them from paying their dues to the government. Suddenly the government found itself on the edge of bankruptcy. It could not do otherwise than extend the time to importers to pay their debts;<sup>1</sup> yet the government was in sore need of money. This experience taught the government the need of shortening the term of credit given to importers; and finally the credit system was totally abolished. Thereafter importers were required to pay cash on receiving their goods.

The losses, sustained by the government in this way,

<sup>1</sup> Woodbury's Annual Report, December, 1837. House Report No. 195, 24 Cong., second session.

did not include the duties remitted by Congress on goods lost chiefly by fire. For many years this could be done only by special legislation; but in 1854 an Act was passed giving authority to the secretary of the treasury to remit them in such cases. But there were many other instances, beside loss by fire, in which duties were remitted. The law requiring a duty to be assessed on the article of best quality in the package was not enforced in those cases where goods were detained by storms, and were deteriorated in consequence of them.

Applications for remission from one cause and another have been exceedingly numerous. Many of them have sprung from the operation of changes in the law fixing the rate of duty. The Act of May 29, 1830, reducing the duties on molasses, tea, coffee, and cocoa, produced some unexpected and embarrassing consequences. The law was to take effect the 30th of September following. Some importers at Providence began a voyage before the enactment of the law; and the vessel arrived home a few days prior to the 30th of September. They knew that the law had been enacted reducing the duty from ten to five cents a gallon on molasses; but they had no alternative of keeping the molasses in the vessel, or storing it, prior to payment of the duty. It was necessary for them to pay the duty; while the importers of tea, coffee, and cocoa, were allowed to store their importations whenever cargoes arrived between the 20th of May and the time when the law was to take effect. Evidently there was no reason for subjecting the importers of molasses to such peculiar treatment. Congress very properly remitted the excess of duties which had been paid.

When the tariff of 1828 was passed, importers wished to have the difference between the old and new rates of duties refunded on all goods received after the passage of the Act, which had been ordered previously. The answer made to their claim was, that the goods had risen in the market enough to pay the increase in the duty. This the importers denied: on the other hand, they declared, that, notwithstanding the increase of duty, most of the merchandise imported had fetched lower prices than under the former tariff. Said Samuel D. Bradford, one of the prominent petitioners for relief, "Nothing can be more certain than that the extra duty laid in 1828 came, nearly all of it, out of the pockets of the importers."<sup>1</sup>

The compromise tariff Act of 1833 caused a singular state of uncertainty in the minds of the President and his cabinet with respect to what duties, if any, should be collected after 1842; and different opinions were entertained by the attorney-general and the secretary of the treasury. The matter was referred to Congress; and the judiciary committee made a lengthy report, in which they declared, that, by the Act of 1833, all duties after the 30th of June, 1842, must be assessed, if at all, on the principle of a home valuation, and as they could not thus be assessed, because no legal regulations existed, they could not be assessed at all. This interpretation, if correct and followed, would have put the government in a sorry plight. The difficulty was remedied by the enactment of the tariff-law of 1842.<sup>2</sup>

Cases were constantly occurring, of hardship, loss, and

<sup>1</sup> Ex. Doc. No. 13, 22 Cong., second session.

<sup>2</sup> House Report No. 943, 27 Cong., second session.

suffering, from constant changes in the laws establishing duties, and from the varying constructions given to them. The secretaries usually have been prompt to decide, and have decided wisely: but the tariff-laws, from an early period, have been so complicated, and the persons chosen to execute them have been changed so often, that on rare occasions only have they displayed very much efficiency. From time to time a fresh set of instructions has been issued by the treasury department: but, during the greater part of our national history, the collection of the revenues has been costly, and in many ways imperfect.

In 1849 there was important legislation concerning the money received from duties. Congress enacted that it should be immediately paid into the treasury, without abatement or reduction.<sup>1</sup>

The expense of collecting the revenue has differed much at various times and places. The chief home of complaint has been at New York, where the larger portion of the revenues has been collected. The loosest and most corrupt management of the custom-house was in the days of Hoyt and Swartwout, by whom the government sustained a direct loss of more than a million dollars. A very elaborate investigation of their management of the custom-house developed one of the most humiliating chapters in the history of our government. Every department of the custom-house was saturated with corruption. All the supplies purchased, all the repairs made, all the goods sold in execution of the laws, collusion with importers, collusion with home manufacturers, — every method which a nefarious ingenuity could devise was

<sup>1</sup> Act, March 3, 30 Cong., second session, chap. 110.



practised to rob the government, to rob the importer, to rob every one who came within the baneful shadow of this devoted body of official criminals.<sup>1</sup>

In the beginning, the custom-house officials, including all the minor officers, were paid in fees established by Congress.<sup>2</sup> Subsequently several changes were made in the modes of compensation. It was seen that the fee-system operated unequally, and not in proportion to services rendered. Indeed, this inequality was so great, that in some cases an inspector received more than twice as much as the collector of the same district. Moreover, the fees were computed in various ways at different offices, and were a constant source of embarrassment in the transaction of business. Ingham recommended<sup>3</sup> the abolition of this mode of payment, and the substitution of salaries; retaining, however, the fees on manifests, clearances, entries, and permits, and also in that part of the service where their payment might be deemed essential to the security of the revenue. From these recommendations grew two Acts, which fixed the salaries of assistant appraisers; while clerks, and all other persons employed in the appraisers' office, were to be appointed by the principal appraisers, and their number and compensation determined by the secretary of the treasury. The duties having declined under the tariff-Act of 1832, the com-

<sup>1</sup> Poindexter's Report, No. 669, 27 Cong., second session.

<sup>2</sup> A practice for a long time prevailed of allowing the compensation of clerks employed in the custom-houses to be paid out of the revenue, when the fees were not deemed adequate to obtain the necessary number; but when Spencer was secretary of the treasury he abolished the practice.—*Annual Report*, December, 1843.

<sup>3</sup> *Annual Treas. Report*, December, 1829.

compensation shrank to a small figure, and it was increased. The law had provided that all the fees accruing to any officer, in addition to his salary, beyond a certain sum, should go to the government. No collector could retain, in fees, over \$4,000, a naval officer \$3,000, and a surveyor \$2,500.<sup>1</sup> But in 1841 the sums were somewhat increased, and made permanent; the law declaring "that no collector should, on any pretence whatsoever, thereafter receive, hold, or retain for himself, in the aggregate, more than \$6,000 per year, including all commissions for duties, and all fees for storage, emoluments, or any other commissions or salaries, which are now allowed and limited by law." The salary of the naval officer was fixed at \$5,000, and that of the surveyor at \$4,500.

Long ago was shown the uselessness of the naval office. The number has been somewhat reduced, but there is no reason why one should be retained at any port. The office is simply revisory; and, if competent persons are put into the collectors' offices, no mistakes would occur, and a naval officer would have nothing to revise.

<sup>1</sup> In 1836, when the expense of collecting duties was under consideration, there was an effort made to abolish the naval office; but the committee to whom the matter had been referred made no recommendation in their report. The naval officers at Norfolk and Portsmouth, who feared that their offices might be abolished, wrote letters to the secretary concerning their duties, from which a very good idea can be gained what they were. — No. 480, 24 Cong., first session.

## CHAPTER XI.

## COINAGE.

FOR several years after establishing the mint, and regulating the coinage, the market-value of gold and silver abroad and at home corresponded with the mint valuation, so that both metals circulated at the legal ratio. Neither one was worth for exportation more than the other: an eagle and ten dollars were convertible terms, and either was given by the banks in exchange for notes at the option of the holder.

Not until 1818, when the question arose of resuming cash payments by the Bank of England, did the fact clearly appear in this country that a change had occurred in the relative value of gold and silver. An ounce of gold, from the operation of that or other causes, was worth more than fifteen ounces of silver. When remittances of coin, therefore, were made from the United States to England, gold was preferred to silver for the simple reason that a gold eagle, which could be obtained here for ten dollars, in London could be converted into more pounds, shillings, and pence, than ten silver dollars.<sup>1</sup>

<sup>1</sup> See papers by Condy Raguet in *National Gazette*, 1820; on the Relative Value of Gold and Silver, *Ibid.*, Jan. 26, 1822; *History of the Gold Coinage of the U. S.*, *Phil. Examiner*, Oct. 15, 1834. The last two papers are republished in the appendix to Raguet's *Currency and Banking*.

The first remedy proposed for this state of things was the one which Dallas had recommended on a former occasion, — the prohibition of the export of coins by legislation. This remedy was finally abandoned in 1819, after the report of Mr. Talbot from the committee of finance. "Of the inefficiency, if not impotence," he says, "of legislative provisions to prevent the escape of the precious metals beyond the territorial limits of the government, the history of all countries in which the power of legislation has been thus exercised bears testimony. . . . Indeed, no error seems more entirely renounced and exploded, if not by the practice of all nations, at least in the disquisitions of political economists, than that which supposed that an accumulation of the precious metals could be produced in the dominions of one sovereign by regulations prohibiting their exportation to those of any other."<sup>1</sup> Since that time no one has thought of stopping the outward flow of the precious metals by legislative inhibition.

Of the two metals, it was apparent, even before the war of 1812, that gold was more desirable for exportation than silver, and that American silver coins were preferable to foreign silver ones because the former were heavier. When the United-States bank contracted with Baring and Reid, in 1819, for a supply of specie, they were to furnish, if practicable, gold and silver in equal amounts, determined by the American valuation of one to fifteen. More than two million dollars of silver were supplied, but not an ounce of gold.<sup>2</sup> The legal valuation of gold did not correspond with that of the market. Its valua-

<sup>1</sup> Senate Report, Jan. 25, 1819, 3 Finance, p. 393.

<sup>2</sup> Lowndes's Report, Jan. 26, 1819, 3 Finance, p. 398.



tion was too low compared with silver, and consequently gold fled to foreign countries. Year after year the current set away from our shore. Congress saw the movement, but did nothing to prevent it.

The same thing happened with respect to silver. Of the foreign silver coins, the Spanish and Mexican coins especially were lighter than the corresponding American ones, because they had circulated many years. Of course, the more the coins were employed, the lighter they grew; and thus the evil of using them increased. What should be done? The solution of the question became momentous and perplexing.

The exportation of gold was prevented somewhat by the rate of exchange. Gallatin, in his "Considerations on the Currency and Banking System," which appeared in 1821,<sup>1</sup> said that four dollars and fifty-six cents of American gold coin at that time contained a quantity of gold equal to that in a sovereign. It was exported to England as soon as the exchange rose to four dollars and sixty-one cents per pound sterling, which was nearly three and three-fourths per cent above the nominal, and three per cent below the true par, calculating this at the rates of fifteen and six-tenths to one, or four dollars and seventy-five cents per pound sterling. With the exception of the year of the embargo, the exchange on London from 1795 to 1821 never rose to the nominal par; or, in other words, during that entire period, the exchange was always favorable to the United States, never rising higher than two per cent below the true par. This is the reason why our gold coins, though under-rated, were not exported till the year

<sup>1</sup> Writings, vol. iii. p. 304.

1821, when the exchange rose from four dollars and sixty cents to four dollars and ninety-eight cents per pound sterling. Then their exportation began; and a premium of one-half per cent for them was given when the premium on the nominal par of exchange was five per cent, corresponding to an exchange of nearly four dollars and sixty-seven cents per pound sterling. From that period to the end of the year 1829, the exchanges, with a few short exceptions, were unfavorable to the United States, and for a long time afterward. "It is perfectly clear," concludes Gallatin, "whilst our gold coins are thus underrated, they will be exported whenever the exchange rises above four dollars and sixty-one cents to four dollars and sixty-four cents per pound sterling; and that, if rated according to the true or approximate relative value of gold to silver, they would not be exported to England till the exchange had risen to at least four dollars and eighty cents to four dollars and eighty-three cents, or more than one per cent above the true par."

In 1819 a committee was appointed by the House to investigate the subject. Mr. Lowndes made a report, which shows that he comprehended the importance of the inquiry, and the need of providing a remedy. He recommended passing a bill, of which the following is an outline:—

There should be retained by the mint as seigniorage, from every dollar coined,  $14\frac{8.6}{100}$  grains of silver, which would reduce the weight of the dollar to  $356\frac{40}{100}$  of fine silver, and to  $399\frac{3.6}{100}$  grains of standard silver. There should be the same proportion in small coins.

The bill further provided that the eagle should be re-

duced from  $247\frac{1}{2}$  grains of fine gold, or 270 grains of standard gold, to  $237\frac{98}{100}$  grains of fine gold, or  $259\frac{61}{100}$  grains of standard gold, and small coins in proportion. No deduction was to be made for seigniorage, but the expense of refining all gold and silver below the mint standard was to be paid by the owner.

Just before making this report, Robert Patterson, the director of the mint, stated in a communication to Crawford, the secretary of the treasury, that, "considering the expense of the importation of gold into the United States, he thought that our government would be justifiable in adding ten per cent to the present relative value of gold. This would hold out a powerful and effectual motive for the importation of gold into the United States, and, at the same time, act as a powerful barrier against its exportation."<sup>1</sup> Had this been done, every silver dollar and half-dollar would have been expelled from the country within a year.

Two years afterward another report was made by Mr. Whitman.<sup>2</sup> He agreed with the recommendations of Mr. Lowndes in respect of gold coins, but was silent concerning the silver ones. The proposed reduction of gold coins was four per cent, which at that time expressed the change in the relative value of the two metals. This bill, like its predecessors, was permitted to die silently. The exportation of gold coins continued until early in 1822, when not one was to be seen in circulation, although six million dollars had been coined at the mint. Had Whit-

<sup>1</sup> Crawford's Communication to the Senate, containing Patterson's Letter, Jan. 25, 1819, 3 Finance, p. 395.

<sup>2</sup> Feb. 2, 1821 3 Finance, p. 660.



man's recommendation been adopted, it would have proved inoperative; for at a subsequent period there was a greater change than four per cent in the relative value of gold and silver, and consequently the new coins would have been carried away.

Congress, though neglecting or not daring to legislate, discussed the subject for the next fifteen years with more wisdom than is usually shown in such matters. Mr. Sanford's report in the Senate<sup>1</sup> was a candid and able document, in which he recommended, among other things, that no foreign coin should form a legal tender, nor any gold or silver coins which had lost one-twenty-fifth part of their original weight. He maintained that gold coins had been exported because they were rated too low, and American silver coins because they were worth more than the foreign ones in circulation. Ingham, the secretary of the treasury, made a special report,<sup>2</sup> evincing much ability and wisdom. He swept over a wide field, and maintained, that if gold and silver were to remain as measures of property, without changing the ratio, it would be advisable to discontinue the gold coinage whenever the premium for gold should exceed two per cent.

"If it be intended," he continued, "to render gold and silver equally attainable in the United States, proper allowance being made for the influence which an increased demand must have on the price, a ratio of one to sixteen would, in all probability, be necessary." Ingham favored the adoption of a single standard of silver.

In 1831 appeared a report from a special committee,

<sup>1</sup> Senate Doc. No. 19, 21 Cong., first session.

<sup>2</sup> May 4, 1830, Ex. Doc. No. 117, 21 Cong., first session.



appointed by the House, of which Campbell P. White was chairman.<sup>1</sup> This was the fruit of considerable study, and embodied at the close a series of deductions which are worth laying before the reader.

1. That the operations of commerce will assuredly dispense to every country its equitable and useful proportion of the gold and silver in currency, if it is not repulsed by paper, or subjected to legal restrictions.

2. That it cannot be of essential importance to any State, whether its proportion of the money of commerce, thus distributed, consists of gold, or of silver, or of both metals; it being the instrument of exchange, but not the commodity really wanted.

3. That there are inherent incurable defects in the system which regulates the standard of value in both gold and silver, its stability as a measure of contracts, and mutability as the practical currency of a particular nation, are serious imperfections; whilst the impossibility of maintaining both metals in concurrent, simultaneous, or promiscuous circulation, appears to be clearly ascertained.

4. That the standard being fixed in one metal is the nearest approach to invariableness, and precludes the necessity of further legislative interference.

5. That gold and silver will not circulate promiscuously and concurrently for similar purposes of disbursement, nor can coins of either metal be sustained in circulation with bank-notes, possessing public confidence, of the like denominations.

<sup>1</sup> Feb. 22, 1831, No. 95, 21 Cong., second session. See another report by the same committee, March 17, 1832, No. 420, 22 Cong., first session.

6. That if the national interest or convenience should require the permanent use of gold eagles and their parts, and also of silver dollars, the issue of bank-bills of one, two, three, five, and ten dollars, must be prohibited.

7. That if it should hereafter be deemed advisable to maintain both gold and silver coins in steady circulation, and to preserve silver as the measures of commerce and of contracts, gold must be restricted to small payments.

8. That if it is the intention to preserve silver as the principal measure of exchange, permanently and securely, it would be necessary to estimate the relative value of gold under its present average or probable future value in general commerce.

The principal recommendation of the committee was a change of the ratio between gold and silver. The ratio proposed was 1 of gold to  $15\frac{6}{10}\frac{25}{100}$  of silver. But the time was not yet for changing the standard.

At length, in 1834, Congress changed the valuation of gold coins.<sup>1</sup> The eagle was fixed at 232 grains of pure gold, and 258 grains of standard gold, and the smaller gold coins in proportion. The Act further provided that these coins should be received in all payments when of full weight, determined by their respective values; and, when they were not of full weight, there should be a corresponding diminution in their legal values.<sup>2</sup>

<sup>1</sup> Act, June 28, 1834, 23 Cong., first session, chap. 95.

<sup>2</sup> See Reports, No. 278, 23 Cong., first session, and No. 513, 24 Cong., first session. This legislation was not pleasing to every one. Said William Reid, in a lecture on Money and Currency, in July, 1834, "To show the reckless disregard of all the usual means of acquiring information of which the authors of this practical blunder in legislation have been guilty, and their own ignorance of the subject, the seigniorage, or charge for coinage,

The standard fineness of these coins was  $899\frac{225}{1000}$ , which was retained for three years; then it was changed to  $\frac{900}{1000}$ . But the weights of the gold coins were not altered by this Act. All minted after July 31, 1834, were a legal tender at their nominal value.<sup>1</sup>

Thus a fifteen-years' discussion had passed ere Congress ventured to legislate on this important and delicate matter. That body evidently tried to do the best thing possible; but the futility of their work showed more clearly than ever the great difficulty of establishing a legal valuation of the two metals, which should always correspond with their valuation in the chief markets of the world.

This change in the valuation of gold, though very slight, was tainted, so some persons thought, with dishonesty. William Reid remarked, in a lecture delivered at Philadelphia on this subject, "It will, perhaps, be said by the supporters of the measure, however, that the alteration made in the standard of money is so extremely trifling, that it will excite hardly any attention: let them not so delude themselves, or lay this flattering unction to their souls. If the degradation in the standard had been only one-third of what it really is, it would not have escaped detection and animadversion. Nay, if it had only appeared to make a change in the standard, although the change was so small that it could not have been computed, it would be severely censured. This is one

of silver as well as gold, is declared by this bill to be the same, or one-half per cent. Now, the expense of coining silver is in reality at least three times greater than that of coining gold." — p. 28.

<sup>1</sup> Act, Jan. 18, 1837, 24 Cong., second session, chap. 3.



of those things in which even the appearance of evil is to be avoided.”<sup>1</sup> He feared that this would prove only a prelude to greater alterations in the value of the coins in the wrong direction, from which the nations of the Old World had suffered; but his fears were never realized, nor did these amendments to the coinage laws have any effect on prices.

The new valuation soon exposed the fact that the valuation of silver was too low: consequently it disappeared from circulation. Later, the golden riches of California and Australia were discovered. The effect of these discoveries was to diminish the value of gold; and, of course, silver shrank still further out of sight. So completely were the silver coins expelled from the channels of circulation, especially those of small denomination, that in 1853 there was a new adjustment of the coinage, and the weight of the silver coins of less denomination than the dollar was reduced enough to insure their retention in circulation; but their legal-tender function was limited to five dollars.

In 1849 Congress authorized the coinage of gold dollars.<sup>2</sup> The expediency of coining them had been discussed

<sup>1</sup> Lect. on Money and Currency, p. 29.

<sup>2</sup> March 3, 30 Cong., second session, chap. 109. The reason for the small gold coinage, it was supposed for many years, “was the wrong ratio between that metal and silver; and this was true, but not the main reason. The main reason was, that, when kegs of sovereigns arrived in New York, they were placed in bank, and the paper money of the institution issued in exchange. The sovereigns remained unpacked for months, and then on the turn of the exchanges, returned whence they came, the bank simply withdrawing from circulation the notes it had uttered when the specie came in. Thus the New-York banks were, in fact, the mint: they coined paper money to take the place of coin. There was nothing



for several years. Committees had considered the subject, and reported unfavorably. Patterson, the director of the mint, contended that such a coin would be "too diminutive." Another objection raised by him was, that the dollar was already represented in a silver coin. A brief employment of gold dollars convinced all of the soundness of Patterson's reasons against coining them.<sup>1</sup>

In 1834 it was declared, that, for all standard gold and silver deposited for coinage, payment should be made in coin within forty days from the making of the deposit; but the depositor could receive payment within five days, if he were willing to relinquish one-half of one per cent

to induce the owner of the gold to incur the delay and expense of sending it to Philadelphia: on the contrary, that process would have made the pieces so much less valuable for export, and, by going into circulation, would have operated against the issues of the banks.

"The largest proportion of the government revenue was received at the New-York custom-house; but the government financiers were so connected with banks, that specie was by no means important to the transaction. If the importer paid his duties in specie, it was in foreign coin, taken at a rate fixed by law, and then by the custom-house turned over to a bank, which packed them up for re-exportation as soon as the exchanges favored the operation. Thus the mode by which Congress carried out its power of regulating the currency, was to place the mint out of the reach of voluntary depositors, and by taking foreign coins as tender, and allowing the people to be supplied with bank-notes for circulation, effectually to destroy all motive for increasing the national currency. By these means the small channels of circulation were entirely occupied with the Spanish fractions, — sixteenths, eighths, fifths, or pistareens and quarters, — while dollars and upwards were supplied by bank-notes; gold being rarely seen, and used only as an agent in the foreign exchanges. In the first forty-three years of the mint, only \$11,825,890 of gold were coined in the United States; that is to say, a sum equal to the coinage of the last two months." — 1852, *Dem. Rev.*, vol. xxx. p. 172.

<sup>1</sup> Patterson's Letter to McKay, Chairman of Com. of Ways and Means, Jan. 20, 1844. No. 346, 28 Cong., first session.

of his deposit. All gold coins minted prior to July 1, 1834, were receivable at the rate of  $94\frac{8}{10}$  cents per penny-weight.<sup>1</sup>

At a later period the expense of coining to depositors was much larger than it ought to have been. A mercantile house in the city of New York, whose receipts of California gold for a year were \$1,381,875, paid one-quarter per cent for sending the same to the mint. Then there were delays in coinage. On the 11th of February, \$111,338 in bullion were deposited at the mint, which was not coined until the 5th of April, — a delay of fifty-two days. The expense of sending this consignment was nearly one and a quarter per cent, or \$1,410. To lessen the expense of coinage, an effort was made to establish a branch mint at the city of New York. This was strongly urged by Walker, when secretary of the treasury. He asserted, that, if a mint had existed there, several millions more would have been annually coined during his four years of service as chief of the treasury department. "This," he says, "is proved by the fact that most of the foreign coin sent from New York and other points to Philadelphia for coinage has been that portion which was received for government dues, and transferred mainly — not by the people or the merchants, but by order of the treasury department — from the several government depositories; and but little coin, comparatively, has gone from New York, transmitted voluntarily by individuals for recoinage, to Philadelphia." Persons, he further asserted, would not, to any great extent, subject themselves to the risk, expense, and delay of the process; whereas the entire amount of

<sup>1</sup> Act, June 28, 1834.

coin and bullion, amounting to many million dollars, that flowed into New York by the operations of commerce and emigration, would be changed into American coin if a mint existed in that city.<sup>1</sup>

For the purpose of enabling the mint to make returns to depositors with as little delay as possible, the secretary of the treasury was directed to keep there, when the condition of the treasury would admit of so doing, one million dollars, from which the depositors of bullion could be paid as soon as practicable after the value of their deposits was ascertained. But when Corwin was secretary, he recommended the issue of mint certificates, which should be receivable for all debts due to the government, and the withdrawal of the bullion fund, which was maintained at an annual expense of more than three hundred thousand dollars. This, he declared, might be saved in interest by applying that fund to the redemption of the public debt. He maintained, too, that great advantages would accrue to the business community, and to the general trade of the country, by throwing the amount of that fund into circulation, instead of keeping it constantly as dead capital in the vaults of the mint.<sup>2</sup>

The plan recommended by Corwin was to issue certificates, under the authority of Congress, to the amount of six or seven million dollars, in sums of a hundred, five hundred, a thousand, five thousand, and ten thousand dollars, payable to the order of the treasurer of the mint, and to distribute them in due proportion to

<sup>1</sup> Walker's Annual Report, 1848. Phoenix's Report, Sept. 14, 1850. No. 490, 31 Cong., first session.

<sup>2</sup> Annual Report, December, 1851.



the mint and its branches, and as soon as any deposit of gold bullion was assayed, and its value ascertained, to pay the amount to the depositor in these certificates. Receivable in payment of all dues to the United States, it was expected that they would always command their full par value, and would be received on deposit as cash by the banks, and held by them for paying duties or other public obligations; but Congress did not consider the recommendation. With still less favor was the subsequent recommendation of the director of the mint received, that mint certificates should be issued to depositors for sums so small as fifty dollars, payable to bearer. Cobb, a later secretary of the treasury, condemned the recommendation in his annual report.<sup>1</sup>

To increase the coinage of the precious metals, branch-mints were established at New Orleans, at Charlotte, N.C., where a considerable quantity of gold was annually obtained, and also at Dahlonega, Ga. It was not claimed that the mint at Philadelphia could not coin all the gold and silver brought there, but that, by erecting other mints at places more convenient to the owners of bullion, the business of coining would increase. Congress never authorized a more useless expense. This was clearly proved in due time; but the plea for creating those establishments was known to be shallow in the beginning. The officers who managed them led an easy life, and doubtless this was intended by Congress. In truth, these institutions were created less to supply a public need than to make places for needy politicians. The chief object of those who caused this unjustifiable extravagance was

<sup>1</sup> Annual Report, December, 1858.



attained, if we believe the report of a committee who investigated the history of these branches in 1842. Especially with reference to the branch at Charlotte, they say, "Judging from the amount of money expended for trees, flowers, and shrubbery, the labor done in the yard, the furniture purchased, and the baths erected, the committee infer, that, under the superintendence of the refined and tasteful gentlemen who were put in charge of this branch mint, it lacked nothing that could gratify the eye, contribute to health, soften the body, and insure repose."<sup>1</sup> The committee wisely recommended the abolition of all the branches. Several years afterward another branch was established at San Francisco, but this has served a useful purpose.

With respect to the money of foreign countries, Congress enacted in June, 1834,<sup>2</sup> that, after the end of the following month, the gold coins of various countries should pass current, "and be receivable in all payments by weight, for the payment of all debts and demands," at rates then established. In 1857 it was enacted that Mexican dollars should thereafter be received at a reduced rate, and, when reaching the mint, should be recoined. The former laws, making foreign coin a legal tender, were repealed.<sup>3</sup>

From the opening of the mint to the 1st of January, 1850, \$128,813,558 were coined. The value of the gold coined and recoined at Philadelphia was \$63,470,612, — an annual average of \$1,113,520. In 1847 specie was sent from Europe, amounting to \$24,153,000, to pay chiefly for

<sup>1</sup> Report No. 462, 27 Cong., second session.

<sup>2</sup> June 28, 23 Cong., first session, chap. 96.

<sup>3</sup> Act, Feb. 21, 1857, 24 Cong., third session, chap. 56.

provisions.<sup>1</sup> The expense to the government for coinage at Philadelphia was  $2\frac{23}{100}$  per cent; at New Orleans,  $6\frac{68}{100}$ ; in North Carolina, 9 per cent; and in Georgia,  $9\frac{97}{100}$  per cent.<sup>2</sup> Prior to the gold discoveries in California, the mint had been chiefly supplied with foreign coin by the government. The law establishing the mint required this to be done. Some bullion was received from other sources. Otherwise, remarked a committee of the House in 1850, "the coinage of the mint would have been reduced to a comparatively small amount."<sup>3</sup>

<sup>1</sup> During the year ending Sept. 30, 1849, 213,736 immigrants arrived at New York; and it was estimated that they brought \$10,686,800, or \$50 apiece. — PHOENIX'S *Report*, No. 490, 31 Cong., first session.

<sup>2</sup> Director's Report, Jan. 18, 1850.

<sup>3</sup> Phoenix's Report.

## CHAPTER XII.

## APPROPRIATIONS AND EXPENDITURES.

1815-1828.

PEACE caused a reduction of the national expenditure. But the arrearages in the war and navy departments especially, and the remaining balance of the floating debt, including treasury notes and loans, must be satisfied before a permanent arrangement of the finances could be effected. Dallas expected that in a year the amount of such indebtedness, which was very large, would be known; and so nearly fulfilled were his expectations, that Crawford, who succeeded him, in his report the following year, reckoned \$1,540,000 as the total amount of war arrearages remaining unpaid.

Peace was declared Feb. 18, 1815. As soon as the event was announced, vast quantities of goods were imported into the country, in consequence of which the receipts swelled to \$36,643,598.77 within the year, and the treasury was relieved.

Never was the head of the treasury department more troubled to make an estimate of the receipts and expenditures than for the year after the close of the war of 1812. It was, indeed, much easier to estimate the probable demands on the treasury than to estimate the receipts. The enormous inflow of goods, notwithstanding the high

duties exacted, the revision of the entire system of taxation which was soon to be made, cut away the ground entirely for estimating with any degree of confidence the probable amount of the national income. It was impossible to be exact in making these calculations. Dallas did the best thing possible: he estimated what the revenues would be if the laws then in operation were continued, and also their amount if the laws were modified in certain ways clearly specified.

The only estimate which need concern us is the one based on a modification of the revenue laws. What changes did Dallas recommend, and how were they regarded by Congress? Though internal taxation had become necessary in consequence of the heavy shrinkage of income from customs, it was generally expected that peace would bring a diminution of the burden. In fulfilment of that expectation, a reduction of the direct tax, a discontinuance of those taxes which on trial had proved unproductive as well as inconvenient, and, above all, the exoneration of domestic manufactures from every charge that could obstruct or retard their progress, seemed to Dallas to be the objects that especially invited legislative attention.

What he specifically proposed, therefore, was, that the Act of July 1, 1812, imposing an additional duty of a hundred per cent on goods, wares, and merchandise imported into the country, and also the Act of July 29, 1813, imposing a duty on imported salt, be continued until the end of June, at which time he supposed that a new tariff would be completed, and put in operation. Both of these Acts would become



inoperative the 18th of February, 1816,—after a year's peace.

He also proposed that the Act of July 24, 1813, imposing a duty on sugar refined within the United States, and the Act of Aug. 2, 1813, imposing a duty on bank-notes, notes discounted, and bills of exchange, be continued without limitation, but with proper amendments to render the collection of the duties more equal and certain, and that the Act of Dec. 15, 1814, imposing duties on carriages, and that part of the Act of Dec. 23, 1814, which related to the duties on sales at auction and increased rates of postage, be continued.

Dallas further proposed that the direct tax be reduced from six million dollars to one-half that amount; that the duties on distilled spirits be discontinued after the end of June, 1816; and that the licenses to distillers be doubled; also that the duties on licenses to retailers of wines, spirituous liquors, and foreign merchandise, be reduced to the rates of the year 1813, with due regard to the period when licenses began and would expire.

There were two other recommendations. One was, that the Act of Jan. 18, 1815, and the one passed a month later, imposing duties on various articles manufactured or made for sale within the United States, and the Act of the former date, imposing duties on household furniture and watches, be repealed. The other recommendation was, that the Act of March 3, 1815, providing for the collection of duties on imports and tonnage, and another of the same date, fixing the compensation, and increasing the responsibility, of collectors of the direct tax and internal duties, be continued without limitation.

By thus modifying the revenue system, he supposed there would be a reduction of seven million dollars in the direct and internal duties; but he also expected that a similar sum would be forthcoming from the increase of the duty on licenses to distillers, and the continuance of the stamp-duties and those on refined sugar, — these sources yielding a million and a half dollars, the salt-duty five hundred thousand dollars, — while an increase of five million dollars was expected from foreign importations. These recommendations, with two slight modifications, were approved by the Committee of Ways and Means, and adopted by Congress.<sup>1</sup>

With such a modification of the revenue laws, Dallas estimated there would be a deficit of \$6,484,269; but as the entire annual appropriations were never paid during the year, and as he had power to issue treasury-notes to meet any deficiency, he did not ask for more legislation to enable him to meet the probable demands on the treasury during the next twelve months.

In managing the finances, it had been the custom to consider the demands and supplies of each year without regard to the balances of appropriations, or of revenue existing at the close of preceding years. Dallas pursued a similar course. The annual appropriations had never been wholly absorbed in the year for which they were granted; and, in making entries of the revenue, a discrimination was maintained between the amount of duties accruing within the year as a debt to the government, and the amount paid as money into the treasury. The annual appropriations, however, were not charged on the revenue

<sup>1</sup> Jan. 9, 1816, 3 Finance, p. 62.

of the year specifically in which they were made; and, indeed, they were satisfied whenever demanded from any unappropriated money in the treasury, without reference to the time when the revenue accrued, or when the money was actually received.

Dallas did not remain much longer in the treasury department. He had taken office at a critical time, and, by his wisdom, boldness, and firmness, extricated the government from the threatened gulf of bankruptcy. Though holding office less than two years and a half, he had wrought wonders. He found the financial machinery of the government disabled for want of a competent head to manage it: when he retired, it was in fine working condition. No secretary of the treasury, except Hamilton, ever won so much reputation, and so justly, in such a brief period.

He was succeeded by Crawford,<sup>1</sup> who was secretary during the eight years of Monroe's administration. He had represented Georgia in the Senate, and was familiar with all the financial discussions and legislation of the war period. He had defended the first United-States bank, and had contended for the renewal of its charter with great power: he was no less a friend of the new institution. In the prime of life, possessing an intuitive rather than a reasoning mind, with great capacity for work, and of the strictest integrity, he was well qualified for the office.

His predecessor had accomplished very much in restoring the national credit, and replenishing the treasury. The net revenues from duties on merchandise and ton-

<sup>1</sup> See p. 299.



nage, internal duties, direct tax, sale of public lands, postage, and incidental receipts, had risen from \$11,500,-606, in 1814, to \$49,893,219, from the same sources, the following year. This was enough to enable Crawford to pay all the immediate demands on the government, and leave a large sum to be applied in reducing the public debt.

Crawford, therefore, was not troubled about getting funds to discharge the public obligations. He expected to pay the demands on the treasury in the eastern section of the Union in local currency by the end of the year; but this expectation was not realized. Payments to the government in that section had been made in treasury-notes. To discharge its payments there, which consisted almost wholly of interest on the public debt and portions of the principal, Crawford saw no other way, beside issuing treasury-notes, except to obtain a temporary loan from the United-States bank. The latter alternative was chosen, and a loan was obtained.

When those claims were satisfied, there was no danger of embarrassment from New England until the next quarterly payment of interest. To escape resorting to loans for that purpose, the secretary urged a cessation of the issue of treasury-notes of all kinds. By adopting this policy, the revenue in that quarter, he declared, would be more than sufficient to satisfy all the claims of the public creditors.<sup>1</sup> Congress accordingly passed a law for retiring them, which produced the desired effect.<sup>2</sup>

At an early period in Crawford's administration of the

<sup>1</sup> Annual Report, December, 1816.

<sup>2</sup> Act, March 3, 1817, 14 Cong., second session, chap. 85.



finances, Congress considered the subject of unsettled balances in favor of the government.<sup>1</sup> A report was made in 1816, containing considerable information, and many recommendations for preventing such large defaults in the future receipts and expenditure of the public revenues as appeared on the face of many of the unsettled balances. The law which prescribed how the accounts should be kept was amended the next year, and all accounts thereafter were to be settled by the treasury department. The second and third auditors were charged with auditing the accounts of the war department; the accounts of the navy went to the fourth auditor; those of the State department, post-office, and Indian affairs, to the fifth; and the other accounts, to the first. Two persons were appointed to perform the functions of comptroller, which previously had been performed by one. The secretary of the treasury was required to "cause all accounts of the expenditure of money to be settled within the year," except where the distance was so great as to prevent his doing this; and, in regard to expenditures at such places, he was to fix periods for making settlements. The comptroller, too, was to lay before Congress annually, during the first week of the session, a list of those officers who had failed to make settlements in conformity to law.<sup>2</sup>

<sup>1</sup> Huger's Report, April 24, 1816, 3 Finance, p. 123.

<sup>2</sup> Act, March 3, 1817, 14 Cong., second session, chap. 45. It was further enacted, "that in the annual statements of all accounts on which balances appear to have been due more than three years, which the comptroller is now required by law to make, he shall hereafter distinguish those accounts the balances appearing on which shall in his opinion be owing to difficulties of form, which he may think it equitable shall be removed by an Act of Congress; and where the debtors by whom such balances shall have

The largest number of unsettled accounts was in the department of state.

With respect to estimating the annual receipts, it was not much easier for Crawford to perform this duty than it had been for Dallas and his predecessors. Said Secretary Woodbury in 1835, "The difficulty in attaining much certainty in estimating the receipts from either customs or lands in any particular year, in a country so new, enterprising, and prosperous as ours, has ever been considerable, in addition to the fluctuations we always shall be liable to from short crops, pestilence, and war." But the revenues were often affected by other powerful causes. Of these, two were the duties levied on imports, and the quantity and quality of the money in circulation. The tariff-laws were frequently changed; and every change affected importations in some way, and, of course, the revenues. So, too, when money was abundant, whether the duties on importations were high or low, they increased. Another cause affecting the revenues was the giving of bonds by importers. Credit was allowed for a very large portion of the duties, and the government did not always receive the amount due at the time stipulated; and not infrequently considerable losses occurred. Then, again, a considerable amount of duties was refunded every year in the way of drawbacks; and the amount which the government was likely to be asked to refund could not be estimated very accurately. With

been due more than three years shall be insolvent, and have been reported to Congress for three successive years as insolvent, the comptroller shall not be required in such case to continue to include such balances in the statement above mentioned."— *Sect. 14.*

so many causes acting with greater or less force, the reader will perceive how difficult it was to estimate the probable amount of revenue; yet it was necessary to make an estimate in order to know how to provide for the expenditures. The annual variation, therefore, between the estimated receipts and the actual ones, caused no surprise. The absence of variations would have been surprising. Crawford, like previous secretaries, presented estimates of the receipts, and also gave reasons (which were usually very brief) on which his calculations were based. They were subsequently examined by the committee of ways and means, and a report was made thereon to Congress; and his reasonings, in nearly every instance, were regarded conclusive by the committee. This was no small praise, for some of the estimates of his successors have been very roughly overhauled.

It would require too much space to explain the grounds on which these estimates were annually founded; nor can we delay to explain the causes of the variation between the estimated and the actual receipts of each year. One of the noteworthy causes, not fully weighed by Crawford the first year, was the enormous importation of goods, notwithstanding the high tariff. Dallas had committed the same error the year previously. He neither knew, nor had he any reason for expecting, that the country would be deluged with the products of the Old World. Then the tariff of 1816 went into operation, which, two years afterward, was considerably modified. The huge volume of paper currency shrank enormously, and this event checked importations. These were the more potent causes of variation while Crawford administered the finances.



To estimate the expenditures was not so difficult. These were made in the beginning by the several departments, and then submitted by the secretary of the treasury to Congress. Sometimes they were diminished, sometimes increased. Almost always new expenditures were authorized. When the amount was determined, and also the estimates of receipts which were likely to accrue from existing laws, a foundation was laid for several inquiries. Will the receipts probably be sufficient to pay the expenditures? Shall the revenues be drawn from other sources? or, in case of a deficiency, shall this be bridged by borrowing, or by cutting down expenditures? If not, what new fountains of national income shall be opened? These inquiries were answered in various ways, and too often Congress displayed a painful lack of wisdom and principle in answering them.

During the greater part of Crawford's term of office the revenues were so ample that he did not have to think about increasing them. The current expenditures were promptly paid, and the reduction of the debt was continued. In his annual report, rendered near the close of 1817, the permanent revenue was estimated at \$29,525,000 per annum, and the annual expenditure was stated at \$21,946,351. Congress thought that the time had already come for parting with the internal revenue; and consequently none was collected after the year 1817, except the balance which had accrued before that time.<sup>1</sup> The

<sup>1</sup> The amount of internal duties accruing to the government from the beginning of the year 1814 to the end of 1817, exclusive of the direct tax, exceeded seventeen million dollars.—LOWNDES'S *Report on the Repeal of the Internal Duties*, Dec. 9, 1817, 3 Finance, p. 230.



committee who considered the subject did not regard the importations of the three previous years as furnishing a certain criterion for the future, yet believed they would remain the same; nor was their belief less strong in the continuance of the exports of the country without a diminution in quantity and value. They entertained no doubt whatever, "under the circumstances of the United States, as to the propriety of reducing a revenue so far exceeding their ordinary expenses."

Congress not only repealed the internal duties, but at the same time increased the expenditures. By thus reducing the receipts, and swelling the expenditures of the government, there would have been a deficit the next year, save for the arrearage of the direct tax and internal duties, and the balance which was in the treasury at the beginning of the year.

It soon appeared, however, that the secretary of the treasury, and Congress, had been too confident in their estimates of the national income accruing from imports. The internal duties were removed when the revenue from imports was at top high-water mark. Importations grew more excessive, after the return of peace, until the close of 1817; and then there was a re-action. Crawford informed Congress, that, if the expenditures were not reduced, it would be necessary to lay new taxes. In any event, whether the revenue was augmented or the expenditure diminished, a loan was necessary. The augmentation of the one, or the diminution of the other, could not be effected soon enough to prevent a deficiency: a loan of three million dollars, therefore, was authorized.<sup>1</sup>

<sup>1</sup> Act, May 15, 1820, 16 Cong., first session, chap. 103.

The situation was not overlooked by the Committee of Ways and Means, who prescribed as a remedy public and private retrenchment. "From the extraordinary depression of commerce, within the last three years, the stagnation of our navigation, the depreciation in the value of our exports, the corresponding depreciation in the value of property of every description, and the serious embarrassments under which every branch of industry now labors, economy and retrenchment in the expenditures of every citizen are imperiously required. The finances of the nation being seriously affected by those causes, there would seem to arise a correspondent obligation on the government to retrench its expenditures, and economize its means. In the infancy of our institutions our expenses were, in general, limited by our receipts. We have been satisfied to advance gradually in furthering the system of national security and independence. Our pace has been greatly quickened toward the accomplishment of these objects, since the restoration of peace, by the great accession of our revenue. From that period it has been in what may be considered a forced state. We are now getting back to a condition more congenial with our population and national wealth."<sup>1</sup> Wisdom clearly demanded keeping the expenditures within the national income.

Congress hesitated to apply the remedy, though the necessity for doing so was very apparent. Another year passed away, and the gap between income and expenditure had widened. The committee on manufactures<sup>2</sup>

<sup>1</sup> Report on Deficit in the Revenue, April 14, 1820, 3 Finance, p. 522.

<sup>2</sup> Jan. 15, 1821, 3 Finance, p. 594.

drew the following picture of the situation. "It is not a matter of very great consolation to know, that, at the end of thirty years of its operation, this government finds its debt increased twenty million dollars, and its revenue inadequate to its expenditure; the national domain impaired, and twenty million dollars of its proceeds expended; thirty-five million dollars drawn from the people by internal taxation, three hundred and forty-one million dollars by impost, yet the public treasury dependent on loans; in profound peace, and without national calamity; the country embarrassed with debts, and real estate under rapid depreciation; the markets of agriculture, the pursuits of manufacture, diminished and declining; commerce struggling, not to retain the carrying of the produce of other nations, but our own. There is no national interest which is in a healthful, thriving condition: the nation at large is not so; the operations of the government and individuals alike labor under difficulties which are felt by all." Another loan for five million dollars was necessary to cover the probable deficit of the year.<sup>1</sup> It was easier for Congress to authorize loans than to reduce expenditures.<sup>2</sup>

The next year, however, a select committee were appointed to inquire whether any retrenchment could be made without impairing the public service. They reported<sup>3</sup> the following resolutions:—

<sup>1</sup> Act, March 3, 1821, 16 Cong., second session, chap. 38.

<sup>2</sup> Crawford's Annual Report, December, 1820. Com. on Errors in the Estimates, Dec. 28, 1820, 3 Finance, p. 580. Report of Com. of Ways and Means on the State of the Finances, Feb. 28, 1821, 3 Finance, p. 677.

<sup>3</sup> April 15, 20, 27, 1822, 3 Finance, pp. 800, 804, 805.

1. That the policy of resorting to loans for the support of the government in times of peace is unwise and inexpedient ;

2. That this government owes it to the people to take efficient measures for the redemption of the public debt ;

3. That the resources of this nation are such as to render unnecessary a resort to a system of internal, direct, and indirect taxation ;

4. That this government ought to adopt such a system of retrenchment as will dispense with useless expenditures, and bring the pay and salaries of government to what they were during the administration of former presidents ;

5. That the tariff ought to be modified with a view to revenue.<sup>1</sup>

The fourth resolution was carried into immediate effect, expenditures were reduced, at the same time the revenues began to swell, and the pressure on the treasury was relieved.

The chief cause of the diminution of the revenues was a heavy contraction of the paper money issued a few years before. In 1819 and 1820 the tide was at the lowest point, and the effects of the contraction were severely felt. The sales of public lands fell off; and many who had purchased were unable to pay, and the government was obliged to grant relief. The banks were in a precarious condition; for their issues were excessive, and the precious metals were fleeing to the East Indies. The banks could not do otherwise than contract their discounts in order to withdraw their notes from circulation, and thus prevent their presentation for payment, which

<sup>1</sup> April 15, 1822, 3 Finance, p. 800.



would have caused immediate and general failure. "This operation, so oppressive to their debtors," Crawford declared, "was indispensably necessary to the existence of specie payments, and must be continued until gold and silver should form a just proportion of the circulating currency." The case required heroic treatment, which was applied; but the patient was restored after long and severe suffering.

When Crawford was at the head of the treasury department, an interesting inquiry was raised in the Senate concerning the loans made by the government to banks and individuals. No very large sums were ever loaned; but, from an early date, the notes of importers were sometimes continued, and assistance in several instances was rendered to the State banks. Deposits were put in them in 1819 in order to enable them to fulfil their engagements. The government never lost any money by these transactions.<sup>1</sup>

Beside the legislation already described, for the more perfect ordering of the finances, other laws of similar design were enacted. The secretary of the Senate, and clerk of the House, were required to give security "for the faithful application and disbursement" of the public money received by them, and to keep the same in banks until they disbursed it.<sup>2</sup> Bonds were required of pursers for the proper discharge of their duties.<sup>3</sup> Congress enacted that judges should deposit the money in their courts, or, subject to their order, in a branch of the United-

<sup>1</sup> Crawford's Com. to the Senate, Feb. 27, 1823, 4 Finance, p. 265.

<sup>2</sup> Act, Feb. 23, 1815, 13 Cong., third session, chap. 51.

<sup>3</sup> Act, March 1, 1817, 14 Cong., second session, chap. 24.

States bank. Nor could it be drawn, except by their order.<sup>1</sup> The number and compensation of the clerks in the different offices were regulated.<sup>2</sup> After the 3d of March, 1819, the second auditor was required to receive and examine "all unsettled accounts arising out of Indian affairs," except those "appertaining to Indian trade;" and the treasurer was required to disburse all the money ordered for the use of the Indian department.<sup>3</sup> The duty was enjoined on the secretary of the treasury to carry to the account of the surplus fund any money appropriated for the war or navy department remaining unexpended after the object had been effected for which the appropriation was made. The war and naval secretaries were required to lay before Congress, annually, a statement of the appropriations of the preceding year, — showing the amount appropriated under each specific head, the amount expended, and the balance, — and to estimate the probable demand on each unexpended appropriation. Money remaining unexpended in these departments, after two years from the date of its appropriation, was to be carried to the account of the surplus fund. The transfer of "any appropriation for the service of one year to another branch of expenditure in a different year," was no longer allowed, though the President, in a few cases, which were specified, was authorized to transfer appropriations in the naval department. No contract was to be made by the secretaries of the several departments,

<sup>1</sup> Act, April 18, 1814, 13 Cong., second session, chap. 62. Act, March 3, 1817, 14 Cong., second session, chap. 108.

<sup>2</sup> Act, April 20, 1818, 15 Cong., first session, chap. 87.

<sup>3</sup> Act, Feb. 24, 1819, 15 Cong., second session, chap. 43.

“except under a law authorizing the same, or under an appropriation adequate to its fulfilment.” Certain contracts, however, which were specified, could be made in the mode previously adopted by Congress. Every land-purchase was to be based on a law enacted for that purpose. The secretary of the treasury was required “to annex” to the annual estimates of appropriations a statement of those for the preceding year, the sums in the treasury (or in the possession of the treasurer as agent of the war and navy departments) remaining from the appropriations of former years, and to estimate the amount of the sums which would not be needed to defray the expenditures incurred in previous years; more especially, to show the entire amount which might be applied to other purposes.<sup>1</sup> In 1820 an officer was appointed to collect money due from delinquent officials, and regulations were prescribed to guide him in conducting the business.<sup>2</sup>

At a later period Congress enacted that money remaining with the treasurer, as agent of the war and navy departments, should be repaid, under the direction of their respective heads, into the treasury. At the same time it was further enacted that all money appropriated for the use of the war and navy departments should be drawn from the treasury by warrants of the secretary of the treasury, issued on the requisition of the respective secretaries of those departments, countersigned by the second comptroller, and registered by the proper auditor.<sup>3</sup>

<sup>1</sup> Act, May 1, 1820, 16 Cong., first session, chap. 52.

<sup>2</sup> Act, May 15, 1820, 16 Cong., first session, chap. 107.

<sup>3</sup> Act, May 7, 1822, 17 Cong., first session, chap. 90.



No advance of public money was to be made in any case whatever. With respect to contracts for performing services or delivering articles, payment was not to exceed the value of the services rendered or articles furnished. Under the especial direction of the President, however, advances could be made to disbursing officers when necessary "to the faithful and prompt discharge of their respective duties, and to the performance of the public engagements." Quarterly returns were required of every officer or agent employed by the government.<sup>1</sup>

Such are the more noteworthy events which occurred while Crawford administered the finances. He was succeeded by Richard Rush of Philadelphia, whose management of them at the time Adams was President was so easy, that nothing occurred worthy of note beside what has already been laid before the reader in other parts of this work. Rush's annual reports were very lengthy, compared with the concise reports presented by Crawford; and much space was given to the discussion of the tariff, always advocating the doctrine of protection. Crawford's utterances on the subject were very mild and guarded. Rush, in his last report, gave a concise account of the administration of the treasury department during his four years of office, which was one of the most prosperous quadrennials in the history of the government. The debt was largely reduced, the expenditures were not excessive, and the financial legislation of the period was tempered with wisdom.

The receipts had exceeded those of the four previous years by an average of twenty-four per cent: yet the

<sup>1</sup> Act, Jan. 31, 1823, 17 Cong., second session, chap. 9.



increased expenditure, aside from the amount paid toward reducing the debt, had been less than ten per cent; and this increase, too, was chiefly for internal improvements. Fourteen millions had been spent in this direction. Of the ninety-seven millions received into the treasury during these four years, all had been expended, except a small balance, without any embarrassment to the public service. Such efficient action, on the part of the government, was due in no small measure to the United-States bank. Rush paid a warm and just tribute to the efficiency and fairness of the bank; nor did any successor forget to do the same thing, until President Jackson determined to destroy it.

The secretary was justified in indulging in the following glowing retrospect: "The receipts of the existing year greater, by nearly two millions of dollars, than had been foreseen, with a prospect of income for the next scarcely less abundant, the receipts of the last four years presenting a large and gratifying excess over those of the four years preceding; the foreign commerce of the country in a state of solid prosperity, from the improving condition of its leading departments of industry at home, and consequent increase in the exportation of its products; the increase of its tonnage (that foundation of naval strength, as well as commercial riches) keeping pace with the increase of commerce; the public debt annually and rapidly decreasing under the application of surplus funds annually and rapidly increasing; the public revenue preserved at an equal value in every part of the Union, through the power of transfers promptly made by the Bank of the United States, without expense or risk to the nation; and the currency maintained in a healthful state by the same

institution,—such is the great outline of the financial and commercial condition of the country, a condition of the result of good laws faithfully administered, and of the aggregate industry of an enterprising free people.” Such is the bright picture which Rush drew when closing his administration of the treasury office.

In smooth, easy periods, history, like alluvial soil, is slowly made. It is not until men grow very wicked that human action becomes exciting, and the pages of history are crowded with events. But if no dark shadow appeared while Rush was at the head of the treasury department, was not the steady, mild shining of the sun of prosperity to be preferred to the more exciting events of earlier and later times?

## CHAPTER XIII.

## APPROPRIATIONS AND EXPENDITURES.

1828-1840.

THE twelve years covered by this chapter are marked by many extraordinary financial events. The country was ablaze with political excitement; business was lifted high upon the shores of prosperity, from which, alas! it was soon drawn back into a fearful abyss; expenditures rose to a huge figure: yet so strongly infected was the legislative mind with the desire to continue them, that, long after the necessity for heavy retrenchment clearly appeared, the step was not taken.

Jackson was President. In the beginning, things worked smoothly. Ingham, the President's first secretary of the treasury, remained two years at his post, encountering no dangerous snags. He was an active Pennsylvania politician, and obtained the office through the influence of the friends of Mr. Calhoun. He had been a member of Congress for seven years, but had shown no special aptitude for finance. Though not the first choice of the President, he was acceptable to the various elements in his party; and those who knew him best had no misgivings concerning his ability to perform successfully the easy duties then appertaining to the treasury office. The country smiled with prosperity; the revenues were ample; the

public debt was rapidly lessening, which caused unmixed joy throughout the land.

In 1828 the tariff on imports was raised. Confidently expecting the event would happen, importations were heavier, and the treasury was enriched. In 1831 the tax on salt was removed, and the duties on tea, coffee, and cocoa, were reduced. Still the revenue was abundant, and the affairs of the country were easily and successfully conducted.

In the treasury report for 1831, which was made by Robert McLane of Delaware, the successor of Ingham, there was a noteworthy reference to the unsatisfied appropriations for the year, and of the amount needed to meet them. To get a clear idea of the subject, a short explanation is necessary.

Appropriations were made by Congress for each calendar year; the fiscal year, at that time, beginning on the first day of October, and, of course, ending on the last day of the following September. When the secretary rendered his annual report, he gave an account of the actual receipts and expenditures for the calendar year, and also an account of the estimated receipts and expenditures for the same period. For the first three quarters the actual receipts and expenditures could be given, but, for the last quarter, only an estimate, as the accounts were not closed until the end of the year. But with the expiration of the calendar year the expenditure of money for that year did not cease: on the contrary, there were always future expenditures which were chargeable to it. These might amount to several millions or only a small sum. In making estimates of the receipts and expenditures, the secre-



taries of the treasury did not take these expenditures into account until the time of McLane, who, in his report for 1831, announced that the unsatisfied appropriations for that year were estimated at \$4,139,823.13. The reason, doubtless, why his predecessors had not considered them, was, at the end of every year the same state of things existed: consequently, if a balance remained at the end of 1831 to be paid the next year, so, at the end of 1832, there would probably be an unpaid balance equally large; in other words, there was an unpaid balance running all the time, the omission to take account of which, thus far, had not disturbed any calculations in making further estimates of revenue and expenditure.

Usually, if an appropriation was not expended within two years, it fell into the sinking-fund, and could not be used unless re-appropriated. But when a contract was made, based on an appropriation of money, like the building of a ship, the appropriation did not fall into the sinking-fund, even though two years had expired after making it. There were many cases, too, like those of vessels on long cruises, in which appropriations could not be settled within the regular period; so that a charge which properly belonged to the year 1831 could not be entered for several years afterward.

A clearer and more accurate idea of the national expenditures would have been presented if the secretary of the treasury, in every annual report, had described the amount of unsatisfied appropriations, and the nature of them. Then it would have appeared what portion of the money appropriated, but not expended, it was absolutely necessary to expend to fulfil the engagements already con-

tracted (except in the case of ships at sea, which were unable to make returns), and what portion could still be diverted to other purposes by Congress, if necessary, without impairing any obligation.

The public debt at this time was nearly extinguished: consequently a reduction of the duties could be safely made. There were two ways of making them: one way was to extend the free list in respect of those things which were not produced here; and the other was to reduce the duties on all things without reference to the situation of the domestic producer. The former way was advocated by those in favor of governmental protection to the manufacturing classes, and the other was advocated by their opponents.

Many, however, entertained the opinion, now that the national debt was nearly paid, that expenditures in several ways ought to be considerably augmented. McLane voiced this opinion when he affirmed that there were other objects of expenditure of obvious expediency, if not of indispensable necessity, which it might be supposed had been postponed by the higher obligation of paying the public debt. The present occasion, he added in his report for 1831, was deemed propitious to provide for these objects in a manner to advance the glory and prosperity of the country without inconvenience to the people.

Beside the usual expenditures, he recommended appropriations for augmenting the navy and army, improving the armories, arming the militia of the several States, increasing the pay and emoluments of the navy officers to an equality with those of the army, and providing them with the means of nautical instruction, enlarging the navy

hospital fund, strengthening the frontier defences, removing obstructions from the Western waters, also for making accurate and complete surveys of the coast, and improving the coast and harbors in order to afford greater facilities to the commerce and navigation of the United States. He added, moreover, that the occasion was favorable for constructing custom-houses and warehouses in the principal commercial cities, in some of which they were indispensably necessary for the purposes of revenue, the permanent accommodation of the courts of the United States and their offices. There was need, too, he contended, of increasing the compensation of the officers of the customs, and the salaries of foreign ministers. An extension of the public buildings at Washington was also recommended, as well as further provision for the officers and soldiers of the Revolution. From this time onward the expenditures for many of these objects were enlarged. The revenues were copious; and during the first term of President Jackson's administration, notwithstanding the branching-out in modes of expenditure, there was not much wastefulness, except in the post-office department.

Mutterings were heard, though, of a storm which was to sweep over the country with the swiftness and violence of a tornado, and from the effects of which the country was to suffer for many years. The President had determined to remove the deposits from the United-States bank, and to prevent a renewal of its charter. No other President had ever taken such an active part in the management of the fiscal affairs of the country. Former Presidents had, indeed, expressed their views in official messages, and vetoed bills which were deemed not con-



ducive to the public welfare; but Jackson did not stop here. He proposed to remove the deposits, and destroy the bank; and he was not content until he had accomplished his purpose. His course was not affected in the least by the fact that the majority of Congress differed from him. Having decided, he proceeded to execute his decision. His imperious will knew no restraint, and suffered but few defeats. Never for a moment did he think of going wrong, any more than did Apollo of sending his shafts awry.

It was while serving his second term that the first investigation into the administration of any department of the government occurred, bringing to light serious mismanagement of the public business; but the investigation of the post-office department, which was undertaken by the party in power, and by whom it had been managed during the period covered by the investigation, revealed a sorry state of things. Henry A. Wise of Virginia was chairman of the committee, whose conclusions were embodied in the form of resolutions, portions of which we will lay before our readers.<sup>1</sup>

“The finances of this department have hitherto been managed without frugality, system, intelligence, or adequate public utility. Expenses have not been kept within the limits of income. Means have not been proportioned to the ends sought to be attained; expenditures, to the benefits to be purchased. The records of the department in this vital particular have not been kept with method and accuracy, for the data they furnish conduct to widely varying results. The accounts of the receipts, expenditures, and losses of the department, do not, in

<sup>1</sup> Feb. 13, 1835, No. 103, 23 Cong., second session.



fact, illustrate with certainty the actual fiscal condition of the department.

“The negligent and unsystematic form of making and preserving mail contracts is such that no human mind can comprehend the whole, and maintain in order so vast and complicated a machine as the general post-office. The contracts are now, and have at all times which have fallen under the observation of the committee been, most loosely constructed. It is occasionally impossible to penetrate their obscurity, often difficult to decipher their interlineations and marginal notes, and always to be doubted whether they are so framed and executed as to be available in law. Knowledge, if acquired, is to be obtained rather from those who keep the books than from the books themselves; and the consequence is, that the loss of the book-keeper is the extinction of all certain light.

“The mode of preparing advertisements for mail contracts has practically inverted the ends of the law which enjoined it. The practice of granting extra allowances has at various dates in the history of this department run into wild excesses, — some illegitimate, and therefore without an apology; and others legitimate, but very questionable as to their expediency. Among its other achievements, it has signalized most eminently the too ready faith and too loose business method of the department. The letter of a contractor, suggesting an improvement, and soliciting an extra allowance, not infrequently has served the double office of an authority for the grant, and of a record of its existence. Some dark corner of a contract, or loose scrap of paper, is commonly the only official evidence of the order for large disbursements of money, under the name of extra allowances. It is a puzzling problem to decide whether this discretionary power, throughout its whole existence, has done most mischief in the character of impostor upon the department, or seducer to contractors.”

The committee did not attempt to ascertain how much the government had lost from banishing economy, and by fraudulent management of the postal department. The people were shocked by the revelation; yet it was only the prelude to a long chapter of shameful misgovernment, passages from which will soon be put before the reader.

Although the duties had been diminished by the tariff Act of 1833, the payment of the public debt had cut the expenditures so low, notwithstanding their enlargement in several ways, that the revenue accumulated in the treasury. The chief cause of the accumulation was the sale of public lands. In the beginning, this portion of the public revenue was pledged for the payment of the debt, and the pledge was faithfully observed. When Gallatin was at the head of the treasury department, he matured a plan for selling the public lands which was followed for many years. Though a steady stream of money flowed into the treasury from this quarter, it was not large until the era of speculation in the days of Jackson. The sales were never one million acres a year until 1815. During the period from 1816 to 1819 the income from the sales amounted nearly to thirty million dollars: during the next three years, however, the sales hardly exceeded four millions. The rise in the price of cotton from twenty-six to thirty-four cents per pound induced larger purchases; exceeding two million acres in 1817, and more than five and a half million acres two years afterward. By the fall of nearly half in the price of cotton in 1820, combined with other causes, land-purchasers were left in debt to the government over twenty-two million dollars;

and, with a change from the credit to the cash system, sales were reduced to much less than a million acres annually. In 1821 purchasers were so troubled to discharge their obligations, Congress provided, that, instead of paying the balances due, they might acquire, if they desired, an absolute title to a portion of the land purchased, which should be determined by the price and the amount paid thereon, on condition of relinquishing their ownership to the remainder.<sup>1</sup> Nearly six million acres reverted to the government; and the sales fell below a million acres yearly until the rise of cotton in 1825, which gave a new impulse to land-buying. Aided by other powerful causes, the sales gradually enlarged until they exceeded a million acres, in 1829. Afterward they swelled more rapidly; amounting to 3,856,227 acres in 1833, and 4,658,218 acres the following year.<sup>2</sup>

In the next two years 32,639,348 acres were sold. These were surprising figures. In 1837 the sales fell to 5,601,103 acres.<sup>3</sup> In the last three years they had been larger than for the forty-five years which had elapsed since the adoption of the Constitution. With this unexpected addition to the receipts, a large surplus accumulated in the treasury.

Yet appropriations were granted on a very enlarged scale. Some were permanent: others were temporary.

<sup>1</sup> Act, March 2, 1821, 16 Cong., second session, chap. 12. Crawford's Com. to Senate, March 27, 1818, 3 Finance, p. 263.

<sup>2</sup> Walker said in 1845 that the average annual sales had been much less than two million acres, yet the aggregate net proceeds of the sales in 1834, '35, '36, and '37, were \$51,268,617.82. See Cambreling's Report from Com. of Ways and Means, July 1, 1836, No. 851, 24 Cong., first session.

<sup>3</sup> Johnson's valuable report on Relief of the States, No. 296, 27 Cong., third session.



Of the former kind were additional grants for legislative purposes, the gradual augmentation in appropriations for the judiciary and the salaries of district judges, the new bureau of the solicitor of the treasury, the corps of mounted dragoons in the army, an increased number of army and navy officers to whom a larger compensation was granted, and extra compensation to officers of the customs after the reduction of the tariff. The chief new items of temporary expenditure were an increase for extinguishing Indian titles and grants of Revolutionary pensions, the payment of the Virginia commutation claims, large additions to lighthouses and custom-houses, the opening of many new roads in the Territories, continuation of the Cumberland road, improving navigation, and other expenditures of a similar nature.

Notwithstanding these expenditures, the available balance in the treasury on the 1st of January, 1836, beside all outstanding appropriations, was about ten and a half millions. "An unprecedented spectacle was thus presented to the world, of a government, not only virtually without any debts and without any direct taxation, but with about one-fourth of its whole annual expenses defrayed from sales of its own unencumbered and immense tracts of public lands, and no resort to even indirect taxation necessary, except for the other three-fourths; and the proceeds of that taxation, though largely and frequently reduced, yet accumulating so fast as to require further legislation to dispose of or invest a considerable surplus on hand. Whether this state of enviable prosperity be justly attributable to the form of our government, to the administration of it, to the character of our people,



to the physical advantages of our country, or to all combined, it was a matter of strong congratulation," said the secretary of the treasury, "and exhibited a very remarkable phenomenon in the history of taxation and finance. Without dwelling on these primary causes of our fortunate condition, or discussing any secondary ones, such as the great demand and reward in this country for either labor or capital, the more appropriate inquiry under these novel circumstances seemed to be to discover the most judicious course to pursue in using this surplus, and in preventing and regulating its future accumulation." Woodbury then proceeded to consider modes for disposing of the surplus. One mode was to extend the system of internal improvements. He also considered the expediency of reducing the revenues. Nothing was done at that session; but the next year, when Congress met, the surplus had risen to a very large sum, and there was an elaborate discussion respecting it. Finally it was decided to invest all beside the sum of five millions in the treasury on the 1st of January, 1837, with the States, in certain proportions, determined by their population. The balance thus applicable at the time fixed was \$37,468,819.97, one-quarter of which was to be paid at the end of every third month.<sup>1</sup>

The first three quarters were promptly paid; but, before the fourth was payable, a fierce financial storm swept over the country, reckoning-day had suddenly come, and the nation sorrowfully realized that it owed many

<sup>1</sup> Woodbury remarked with reference to this distribution, in his annual report at the end of 1839, that it tempted the States in several instances to new and unprofitable enterprises, and stimulated delusive hopes of still further distributions.

millions abroad for imported goods, with nothing to pay for them. Credit, which had been blown into enormous dimensions by the State banks, quickly vanished; nearly all these institutions which had been so carefully keeping the government deposits failed; and the merchants who owed many millions for duties were unable to pay. The treasury, which shortly before had been so gorged with money that it could find no way to spend it, and had been emptying its treasures into the State laps, suddenly found itself on the verge of bankruptcy. And all these things happened within nine months from the time when a surplus of more than forty millions was lying in the treasury. What a humiliating position! The government could no longer think of paying any more to the States: the question was, how could the ship of state be shoved off from the rocks where she was so badly thumping.

Congress convened the 4th of September, 1837, and the secretary of the treasury rehearsed the dismal story. The receipts had rapidly shrunk. Not only were the imports less, but payment of duties already due was deferred in compliance with the wishes of the importers, most of whom were embarrassed. The secretary reminded Congress, that, before submitting his last annual report, he saw indications of a decrease in the receipts, and of an approaching revulsion in our commercial prosperity, and for this reason estimated the accruing receipts for the year at only twenty-four million dollars. "As the appropriations asked for were about twenty-seven million dollars, it was then suggested that the occurrence of a deficiency was probable. When those appropriations became, in fact, enlarged by Congress to more than thirty-two million

dollars, it rendered a deficiency inevitable to the extent now anticipated, unless the receipts should happen greatly to exceed the estimates," — an event which did not occur.

Of course, the secretary could not pay the last instalment of the deposit due to the States. On the other hand, he declared "there would probably be a necessity to resort to the deposits now with the States, and to the instalments destined for them in October, or to some other resource, for a sum equal to ten million dollars." Such was the melancholy condition of the treasury. How sudden and great was the change from overflowing abundance!

What were the measures proposed and adopted to extricate the treasury from the mire? First, Congress enacted a law authorizing the secretary of the treasury to withhold the payment of the fourth instalment of the deposit to the States;<sup>1</sup> secondly, importers were given more time to pay their bonds;<sup>2</sup> thirdly, treasury-notes were authorized for a sum not exceeding ten million dollars in anticipation of the revenues.<sup>3</sup> The secretary proposed the issue of two kinds, the latter bearing interest, and the former not. A few years afterward, treasury-notes were issued, bearing an insignificant rate of interest; but the action of the secretary of the treasury in issuing them was condemned as unconstitutional. But Congress did authorize the issue of notes carrying six per cent interest; and with this aid the government was able to discharge its obligations.

<sup>1</sup> Act, Oct. 2, 1837, 25 Cong., first session, chap. 1.

<sup>2</sup> Act, Oct. 16, 1837, 25 Cong., first session, chap. 8.

<sup>3</sup> Act, Oct. 12, 1837, 25 Cong., first session, chap. 2.



The wisdom of providing for the early and final redemption of these notes was not clearly and strongly set forth, as it should have been, by the secretary of the treasury, when recommending their issue. He recommended, that, when the money on hand available for public purposes exceeded a given amount (four or five millions), the excess ought to be applied toward redeeming these notes, unless they should be needed to defray current expenses; but Congress simply declared that they should be payable one year from date, and should not bear interest beyond that time.

The banks having suspended specie payments, a very perplexing question arose with respect to receiving their notes for debts due to the government. Although specie was the best standard, "and the only one contemplated by the constitution," Hamilton, very early in the history of the government, issued an order to the collectors of public money, authorizing them to receive bank-notes instead of specie; but with improvements in communication, increased facility in exchanges, and diminished distance between points of collection and expenditure, the use of notes to aid in public transfers became unnecessary. Most of the duties on imports were discharged in checks on the bank where the bonds were deposited for collection, or in its own notes, and very infrequently in those of banks at any distance; consequently not much embarrassment had ever arisen in paying duties with bank-notes. In accepting them for lands, however, the situation of purchasers and receivers was so remote, that difficulties frequently occurred; and the regulations about receiving them were changed when the United-States bank



and its branches, and also the State banks, were employed as depositories. In the mixed system of currency that now prevailed, and which was everywhere interwoven with the business of the country, it was very inconvenient entirely to avoid, and occasionally dangerous to permit, taking the bills of any State bank for lands; and the receipt of such notes was necessarily restricted, or a risk was incurred of making many imperfect arrangements, and causing some injuries to the treasury.

The secretary prescribed various remedies, one of which was that certificates not bearing interest, but payable in specie to the bearer or to order, and receivable for all public dues, should be authorized, and given in payment to the public creditor whenever preferred by him, and sufficient specie existed in the treasury. "This kind of paper," he declared, "would be very convenient in form, and would differ little from the drafts now in use on banks, except being drawn on a known specie fund, and expressing on its face not only this, but its being receivable in the first instance for all public dues. It would possess the highest credit attainable in society." Several other remedies of a similar nature were mentioned.

Congress declined to legislate. After the suspension of specie payments, no bank-notes were received by the government not redeemable in specie. The secretary having declared that he should not change his policy in this regard, unless Congress otherwise ordered, that body left him alone to guide the treasury through these perplexing obstacles, doubtless believing they could render no real assistance.

The public revenues now fluctuated in a most astonish-

ing manner. Not only were those from land enormously diminished, but also those from imports. Well might Woodbury remark, in his annual report for 1836, of "the intrinsic difficulties in attaining much certainty concerning them during crises of overaction and revulsions like the past and the present."

In that report he repeated several recommendations which merit brief mention in this place.

First, That contingent authority be given to some appropriate officer to invest safely any considerable surpluses which should casually occur in the receipts beyond the expenditures, and to dispose of such investments when deficiencies might happen requiring it.

Secondly, That limited power be granted to issue treasury-notes for temporary purposes when deficiencies happened and no surpluses existed, and to redeem them as soon as there was a surplus in the treasury. Beside other obvious reasons in favor of such a regulation, it would enable the department to administer the finances with at least two or three millions less in the treasury than would otherwise be needed.

Thirdly, That the additional duties of general depositories be imposed on all receivers and collectors of public money, officers of the mint and its branches, and the treasurer.

Fourthly, That permission be given to receive payment in advance for the public lands at such places as the treasury department might appoint.

Fifthly, The extension of the warehouse system, and the requiring of all duties to be paid on imports when they were taken therefrom for consumption. This change,

though less urgent, Woodbury declared, was very desirable in respect of the collection and security of the most important portion of the public revenue.

There was, indeed, great need for adopting some of these recommendations. The country owed nothing to absorb a surplus, if any should accrue. Nor was there an adequate supply of banking institutions to provide a sound circulating medium for the needs of business, or to command the general confidence in their ability to keep, disburse, and transfer the public funds in a satisfactory manner. Daily did the secretary realize the difficulties of conducting the business of the treasury without these agencies ; but Congress disregarded his recommendations.

What, indeed, could be plainer than that the government, while the present system of public revenue existed, — which worked so fitfully, that, in 1834, twenty-one million dollars were collected, and two years later more than twice as much, and the year afterward only nineteen million dollars, — required a reservoir for retaining the excess of revenue during years of plenty, in order to draw therefrom in times of financial drought? The subject was discussed, but no plan was adopted. The investment of a part of the surplus in State stocks, in the mode successfully practised with respect to money belonging to the Indians, had been recommended by the secretary of the treasury in 1836. Congress preferred another plan. This was to deposit the surplus with the States for safe keeping, investing the secretary of the treasury with power to recall it whenever he pleased. It was kept there so safely, that the very next year, when the necessity arose for demanding it, Congress passed an Act forbidding the secre-



tary from making such a request. Instead of recovering this money, which was at first intended to be merely a deposit with the States, Congress authorized the issue of treasury-notes. The payment of the fourth instalment of the deposit was deferred from time to time, and finally was prohibited. Authority to sell the bonds of the United-States bank was next given.

These measures were very inadequate. Woodbury reminded Congress, at the close of 1838, that since the extinguishment of the national debt, and within the last three years, the policy of Congress had been to avoid a large balance in the treasury immediately available, which, if unemployed for the public service, was regarded as taken from the circulation of the country, and in some degree hoarded, though deposited in banks which made the public money the basis of enlarged operations. There was need of a system whereby the government could get money whenever the payments exceeded the receipts. How fluctuating both were, Woodbury well illustrated by the events of that year. In January the expenditures were about \$1,800,000, and in May only \$2,242,000; but in July they exceeded \$4,500,000, — an increase, in a single month, of nearly two millions and a third, or more than enough to sweep off in thirty days the whole balance on hand. Consequently, at any period, with only a million or two in the treasury, and with receipts of less than two millions monthly, it was obvious that the public engagements could not all be punctually met, unless some power should exist to provide for calls so unequal in different portions of the year, and also in different years.

Congress very tardily prescribed a remedy. The



independent treasury was finally established: but, in doing this, one of the principles for which Congress contended was overthrown; namely, the keeping of the largest amount of the public funds possible in circulation. The establishment of the independent treasury took the largest amount possible from those channels: indeed, it took all except the sums actually required for making payments. The only way devised, of providing sufficient funds to pay the debts of the government, was to issue treasury-notes when there was a dearth of income.

Notwithstanding the enormous shrinkage in revenues, public expenditures were reduced very slowly. In every annual report, Woodbury pleaded for a reduction. It is true, his words did not have the ring of Dallas. They were feeble, yet the need for the practice of greater economy was evident without special pleading by any one. The blindest legislator knew how heavily the revenues had shrunk, and hence the need there was of retrenchment in the public expenditures. But however pressing the need, Congress acted slowly in retrenching. They were reduced somewhat; but Woodbury, cautious as he was, declares in his final report that he had "earnestly urged a more rapid reduction." When the debt was paid, as we have seen, Congress raised the gates of expenditure much higher; and, having once set the flood loose, barriers could not be easily placed before it.

Bad enough were these things: but still worse had happened; for corruption, foul and universal, was poisoning almost every branch, twig, and leaf of the public service. Certainly in no former period, and in no subsequent one, has such a vast mass of corruption in

conducting the public business been discovered. Every thing, almost, undertaken by the officers of the government, was saturated with it. Every contract and appropriation seemed tainted with fraud. It would require too much space to describe these things, yet we must briefly touch on some of them.

Woodbury himself was not a partner in these frauds; although some of them were committed so near to him, that one cannot help inquiring why he did not discover them. It may be that he knew, but could not screw himself up to the point of interfering. He was neither a reformer, nor a believer in drastic remedies. Though a very industrious official, he lacked both conviction and courage, and failed utterly to apply strong correctives when they were needed. He was not an Alberoni, to stamp out bravely and unflinchingly the dishonesty perpetrated around him. He seemed rather to partake of the spirit of the statesmen during the time of Louis XV., who looked out well for themselves, expecting afterward the deluge; for Woodbury knew well enough that the storm would come. Unhappily for him, it came before his term of office expired.

There were many who boldly tried to stem the evil tide. They clearly depicted the evil consequences that would inevitably happen, but they cried as though in a wilderness. Their voices were not heard. In the mighty roar for public plunder, those engaged therein thought but little of the future; and they were powerful enough to persuade the leaders generally to remain silent. But the plunderers were few compared with the whole number of the people; and, however great might be "the cohesive power of public plunder" among the former class, it could

not dazzle the plundered : so, at last, reckoning-day came ; and it revealed a scene of thoroughly organized corruption, on the part of public officials, hitherto unparalleled.

Officers who had resigned from the army and navy were re-instated several years afterward, and drew full pay for the period when they were not serving the government.<sup>1</sup> Young men were sent abroad professedly to study at the cavalry school in Namur, France, but really to travel at public expense, and the law forbidding the payment of any extra compensation whatever, to military officers who should serve the government in any other capacity than a military one, was violated. The secretary of war, Poinsett, sinned knowingly and wilfully in allowing extra compensation for services thus rendered. The expenses of the Florida war vastly exceeded all calculations in consequence of the frauds practised in transporting troops, building and buying boats, and in other ways. The history of this chapter of public misdeeds was sorrowfully read by the people. The final act in the sad story of the removal of the Florida Indians was disgraceful in the extreme.<sup>2</sup> The secretary of war was a guilty actor in swelling enormously the expenses of their removal, after the contract for performing the service had been made, and at a high figure, too, which would have amply rewarded the contractors. The contingent expenses of the House during the twenty-third and twenty-fourth Congresses, for stationery and the like, were largely increased, no small portion thereof going into the pockets of the editor of "The Democratic Review" to pay for engraving

<sup>1</sup> Report No. 459, 27 Cong., second session.

<sup>2</sup> Report No. 238, 27 Cong., third session.



steel plates of distinguished democratic statesmen. The result of the investigation of the New-York custom-house was shocking to many. The investigation was conducted by a commission, who reported to the secretary of the treasury. The House committee on public expenditures sent a letter to him for the report as soon as it was completed, but there was no answer. Then the House ordered the secretary to send the report, but he did not heed the order. The committee then called on the secretary, but received no reply to their inquiries concerning the document. Finally they called on Poindexter, one of the commissioners, to submit the result of his investigations to the House, with which request he complied. Having examined it, the committee declared, "It is believed that the wickedness of public officers here exposed is unparalleled in the history of any civilized government."<sup>1</sup>

Useless offices were multiplied. The origin of many of these is interesting. A new duty, perhaps, was imposed on a legally constituted officer, who appointed an agent to perform it. The latter was paid from a contingent fund, or by a specific appropriation. This practice was continued for a time. Then the salary of the agent, by design or accident, was incorporated into an appropriation bill; and thus a sort of half-legal existence was given to the office, while the officer continued to hold it long after the object for which he was appointed had passed away.

Many public buildings were erected during this period. In the beginning, Congress enacted that the entire sum for building them should not exceed a certain figure; but the enactment was speedily forgotten, and appropriations

<sup>1</sup> Report, April 28, 1842, No. 669, 27 Cong., second session.



were made from year to year, even after the plethoric condition of the treasury had ceased. The superintendent of the branch-mint at Charlotte, N.C., proposed to make himself as comfortable as possible; and so he built, at public expense, an ice-house, a summer-house, and a bath-house. A committee who investigated the matter remarked, that, not perceiving the connection these buildings had with coining gold, they were forced to the conclusion that the branch-mint in its operations had added more to the comfort of the superintendent than to the promotion of the public good. It is true, that, when the account reached the treasury department, it was suspended for examination. "It seemed a little too large;" but, when the secretary learned from the superintendent that what he had done was "an error of honest patriotism," the explanation was satisfactory, and the account was allowed.<sup>1</sup>

During Van Buren's administration a large sum of money was spent in furnishing the White House; and the law requiring that all furniture purchased for it, so far as practicable, should be of American or domestic manufacture, was grossly violated. Enormous quantities of mail-bags and other supplies for the post-office department, greatly in excess of the wants of the government, were ordered at high prices as a reward for political services during the presidential campaign of 1836.<sup>2</sup> During the Indian wars the officers of the army received higher pay in the way of commutation for fuel and quarters, though there was no authority to justify such an increase

<sup>1</sup> Report No. 18, 26 Cong., second session.

<sup>2</sup> Report No. 989, 27 Cong., second session.

by the secretary of war.<sup>1</sup> President Jackson, too, sinned in the same manner by increasing the salary of the commissioner of public buildings; and Van Buren continued the practice until 1839, when Congress finally accumulated enough virtue and courage to prohibit him from paying the commissioner any more than the law specified.<sup>2</sup> Amos Kendall, the postmaster-general, sent George Platt to Europe to get information relating to the postal systems of various countries. His salary was two thousand dollars, and sixteen dollars and eighty-eight cents per day were allowed for expenses. He was gone four hundred and fifty-seven days, and doubtless enjoyed his trip better than many others did the history of it. There was no authority for sending him, — no appropriation had been made for the purpose; but Kendall, who was one of President Jackson's devoted adherents, persuaded the President to order a transfer of eight thousand dollars from another appropriation to the appropriation for "mail depredations and special agents," under which head the account was paid. A committee of investigation declared there was no excuse for such an abuse of power, and wanton waste or misapplication of the public money: there were no services rendered in obtaining information which could not have been performed by the regularly authorized ministers of the United States in the countries through which Mr. Platt travelled.<sup>3</sup>

There was a very elaborate investigation into the administration of the executive departments in the winter

<sup>1</sup> Report No. 288, 27 Cong., third session.

<sup>2</sup> Report No. 460, 27 Cong., second session.

<sup>3</sup> Report No. 487, 27 Cong., second session.

of 1837. The resolutions were introduced into the House by Henry A. Wise of Virginia.<sup>1</sup>

The committee organized, and sent two resolutions to President Jackson, which evidently made his ears tingle, judging from his subsequent conduct. The first resolved that "the President of the United States be requested, and the heads of the several departments be directed, to furnish this committee with a list or lists of all officers, or agents, or deputies, who have been appointed, or employed and paid, since the 4th of March, 1829, to the 1st of December last (if any without authority of law, or whose names are not contained in the last printed register of public officers, commonly called the Blue Book), by the President, or either of the said heads of departments respectively, and without nomination to, or the advice and consent of, the Senate of the United States; showing the names of such officers, agents, or deputies, the sums paid to each, the services rendered, and by what authority appointed and paid, and what reasons for such appointments." The second resolution further declared that the various executive officers, in replying to the foregoing resolution, "be requested, at the same time, to furnish a statement of the period at which any innovations not authorized by law (if such exist) had their origin, their causes, and the necessity which has required their continuance."

The reader who is acquainted with the character of President Jackson may readily divine how he treated these resolutions. He replied very sharply, refused to comply with the request of the committee, and left them

<sup>1</sup> Report No. 194, 24 Cong., second session.



to grope for the information desired as best they could. Nevertheless, they did uncover a sickening state of things. The presidential office had been debased to low ends, and its dignity had been destroyed; while the integrity of its occupant, which hitherto no one had questioned, was now impaired.

Between 1820 and 1829 the average annual expenditure for maintaining the government, beside paying the interest and principal of the debt, was thirteen million dollars; but, from the latter period to 1838, the average rose to thirty-two million dollars. While a large portion of this increase was wise and honest, yet, as we have shown, fraud stalked around with gigantic strides in many shapes. At no previous or subsequent period have defaults been so frequent, or the losses to the government in proportion to the receipts so great. Many of these might have been avoided had the secretary of the treasury required disbursing officers to render their accounts quarterly, in conformity to the law. The guilt of an officer who had taken a small sum would then have been exposed, and the opportunity of taking more would have been denied to him. But, by permitting him to make his returns when he pleased, the way was clear for defrauding the government of a large amount. No wonder that many profited in consequence of the neglect of the secretary to enforce a wise law, by robbing the government.

The money squandered for improving rivers and harbors was very great. The Committee of Ways and Means in 1836, in reviewing the history of these appropriations, criticised the "system as expensive and yet feeble, fluctuating and yet uncertain, in all its operations and results,



unless it be viewed only with reference to its fitness to the purposes of the individual wealth and profit of the agents and contractors immediately concerned." They further said of these undertakings, "In most of them a very wide result from the original estimates has been already exhibited, and without furnishing a certain accomplishment of the object desired in any single case."<sup>1</sup> Nor were the appropriations subsequently made for this purpose rooted in greater wisdom. No public expenditure at any time has yielded such meagre and unsatisfactory results.<sup>2</sup>

<sup>1</sup> Reports, No. 297, 24 Cong., first session; No. 175, 24 Cong., second session.

<sup>2</sup> A committee on public expenditures reported, in 1842, concerning the expenditures of this period. They affirm "they are satisfied that extravagance of the most wilful character has squandered the public money, and that no efforts seem to have been made, by those who possessed the power, to prevent it. The acts and accounts of contracting and disbursing officers appear to have passed the scrutiny of those entitled to demand accountability, if clad in the mere forms of law, upon no higher evidence than that of the agent who performs the deed that he has acted in good faith, notwithstanding his very act creates a presumption to the contrary; and even this evidence, frail as it is, has not been demanded in a vast variety of cases. Until this system shall be changed,—and with the executive department of the government alone rests the power of change,—the people need never hope for a faithful and prudent management of the finances of their government.

"In each department, and throughout the various ramifications of it, whether civil or military, whenever there was money to be expended, the most wilful extravagance seems to have followed the administration of the law, until the public interests have been sacrificed by its influence." Instances are then multiplied,—dredging the Mississippi, the Florida war, the removal of the Indians from Florida (a transaction in which the secretary of war was badly implicated).<sup>1</sup> Continuing their remarks with reference to the expenditures by the different departments, the committee

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<sup>1</sup> Report No. 288, 27 Cong., third session.

This is not a pleasing chapter in our national history; yet Woodbury could justly say, in his closing report, that, while he had held the office of secretary of the treasury, — notwithstanding the heavy decline in imports (on two occasions greatly lessening the revenue), and other losses sustained through officers, banks, and merchants, and notwithstanding the biennial reduction of duties, and also the remission of several millions to railroad companies and under new judicial constructions, — the income of the government, after all these reductions and losses, had been sufficient to meet the current expenses of the government, as well as the extraordinary ones incurred by Indian wars, treaties, and other costly measures, without imposing any new taxes or higher tariff, or creating a new funded debt, although there were four million five hundred thousand dollars of treasury-notes still unpaid. The last of the old funded debt had been extinguished,

say “they cannot indulge any other opinion than that they have not been made in pursuance of the laws which authorized them, because they are wanting in economy, and regard for the public welfare. They are not apprised, by any evidence before them, that any investigation whatever has been made, or even any doubt expressed, by those before whose scrutiny they had to pass, as to their reasonableness and economy. No check seems to have been placed upon the will of the contracting and disbursing officers. The presumption seems never to have arisen, when prices so greatly disproportioned to the value of the articles received have been paid, and which are not allowed in the private transactions of life, that the public interest had been jeopardized by infidelity, or the want of a proper judgment. Whatever has been expended seems to have been allowed; and thus the discretion of a subordinate officer has given law to the scrutiny of a higher officer. This want of accountability has given rise to the most profligate waste of public money, and helped to swell the enormous expenditures of the government within a few years past. — *Report No. 458*, 27 Cong. second session.

interest had been paid on the debt of fifteen hundred thousand dollars assumed for the District of Columbia, and a surplus of twenty-eight million dollars had been divided among the States. The only permanent aid in effecting this, beside the receipts from ordinary sources, was the debt due from the United-States bank, of about eight million dollars, which was nearly the same amount as the principal and interest paid to extinguish the last remnant of the Revolutionary debt.

## CHAPTER XIV.

## ACCOUNTING.

HAVING reached the end of the first half-century of the government, it is a fit time to pick up the thread relating to the public accounts which was started in the beginning of the present volume. Though the subject may be a very dry one to the reader, its importance none will deny. Did the mode adopted in the beginning for paying honest creditors prove effective? were the demands of dishonest claimants successfully exposed and defeated? did the government wisely guard against misfeasance by its own officers?—these, surely, are important matters in the history of any country.

A committee on retrenchment, in 1842, remarked that “the treasury department, as originally established, appears to have been well adapted to the purpose for which it was designed.”<sup>1</sup> Beside a chief, its officers originally were a comptroller, auditor, treasurer, and register. The comptroller and auditor were the only accounting officers. The register simply recorded settlements and payments, and preserved accounts and vouchers. The committee declared that no better scheme could have been devised

<sup>1</sup> Gilmer's Report, May 23, 1842, No. 741, 27 Cong., second session. See also Woodbury's Report on Re-organization of the Treasury in 1834, and Report of select committee thereon.



to secure correctness in the accounts, and prevent improper payments of money. "The comptroller acted as a check in both respects; and, as there was but a single revision either of the accounts or warrants, no unnecessary delay was occasioned in the despatch of public business." The least necessary part of this machinery was the registry office.

The design, when organizing the government, was to concentrate all accounting agencies in the treasury department. Innovations were made; but they were not improvements. Said the committee to which we have just referred, "The innovations which have been made from time to time have not only embarrassed the system by making it more complicated, without increasing either its responsibility or efficiency: the complex system of expenditure and account is one of the greatest practical obstructions to economy and responsibility in the government. The departments at the seat of government, instead of being accessible and intelligible to the people who come from all quarters of the Union on business with them, are labyrinths which often perplex those most experienced in their mazes."

The treasury was the receiving department; the state, war, and navy departments simply disbursed the public money: while the postal department performed both functions.

The several chiefs were required to provide for the appointment of officers and agents in their departments, for paying their salaries, for advancing the money they needed; to direct the details of service and supply, make contracts; and, generally, to superintend the various inter-

ests confided to their departments, leaving the adjustment of accounts to the accounting officers, who, as we have seen, were connected with the treasury office. Regarding the departments in this way, and attaching to them the officers who adjusted their accounts, the following arrangement will show how many officials were employed, and what were their duties: —

#### DEPARTMENT OF STATE.

*Administrative Duties.* — Secretary and fourteen clerks, commissioner of patents and eleven clerks.

*Accounting Duties.* — Fifth auditor and nine clerks.

#### WAR DEPARTMENT.

*Administrative Duties.* — Secretary and eleven clerks, commissioner of Indian affairs and twelve clerks, commissioner of pensions and eleven clerks, commanding-general, commissary-general, adjutant-general, quartermaster-general, paymaster-general, chief of engineers, colonel of topographical department, colonel of ordnance and forty-five assistants and clerks.

*Accounting Duties.* — Second comptroller and ten clerks, second auditor and fifteen clerks, third auditor and twenty-seven clerks.

#### NAVAL DEPARTMENT.

*Administrative Duties.* — Secretary and eight clerks, three navy commissioners and eight clerks.

*Accounting Duties.* — Fourth auditor and fourteen clerks.

#### POSTAL DEPARTMENT.

*Administrative Duties.* — Postmaster-general, three assistants, and forty-seven clerks.

*Accounting Duties.* — Sixth auditor and sixty-eight clerks.

## TREASURY DEPARTMENT.

*Administrative Duties.* — Secretary and fifteen clerks, commissioner of land-office, solicitor of land-office, recorder of land-office and seventy-four clerks, solicitor of the treasury and three clerks, treasurer and eleven clerks, register and twenty-one clerks.

*Accounting Duties.* — First comptroller and fifteen clerks, first auditor and thirteen clerks.

The first comptroller was not only an accounting officer, he also superintended the customs. The commissioner of the land-office managed the public lands, and adjusted the accounts of the receivers of money who sold the lands. The fifth auditor, beside adjusting accounts, superintended the lighthouse establishment.

The foregoing arrangement represents the auditors as connected with the several departments; yet, in truth, they were not. The lack of a proper arrangement of the accounting officers occasioned much embarrassment. The fourth and sixth auditors were exclusively and properly confined to the accounts of the naval and postal departments; while the second and third auditors, with an aggregate force smaller than that employed by the sixth auditor, adjusted the accounts of the war department. The first auditor divided the treasury accounts with the commissioner of the land-office and the fifth auditor, while the latter officer also audited the accounts of the state department.

The prompt adjustment by the sixth auditor of all the accounts of the postal department furnished indisputable evidence to the committee on retrenchment, who reported, in 1842, that one auditor could adjust all the claims of a

department; and such an arrangement was considered desirable, chiefly because of the facility and method that would follow in despatching business, and giving information. They were certain that a great benefit would arise from abandoning the numerical designations of auditors, and by assigning one auditor to each department; calling him the auditor of it, and intrusting him with all of its accounts.

To require the first comptroller to perform administrative duties in addition to his duties as an accounting officer, was a grave defect. As he was the final judge of accounts, he ought to have been independent of the secretary of the treasury; but in superintending the customs he was under the secretary's control. In 1849<sup>1</sup> this defect was remedied by creating the office of commissioner of customs, and assigning to it all the administrative duties pertaining to the customs previously performed by the first comptroller. The fifth auditor, too, was relieved of his duties pertaining to the lighthouse establishment.

The entire force connected with the several departments at Washington in 1840 was about five hundred and fifty or six hundred persons. Most of them were clerks engaged in examining, adjusting, and keeping the accounts of the receipts and expenditures of the government, in corresponding, copying, and other duties.

The accounts of disbursements were far more complicated and numerous than those of receipts: hence the adjustment of the former involved more investigation than the accounts of receiving agents. The accounts for military disbursements were subjected to examination, first,

<sup>1</sup> Act, March 3, 30 Cong., second session, chap. 108.



in a bureau or other subdivision of the war department, then in the office of the second or third auditor, and afterward in the office of the second comptroller. The examinations were, in truth, made, with occasional exceptions, by the clerks in the several offices through which the accounts passed. In the first place, claims accompanied by vouchers and explanations were sent to the head of a bureau. They were referred by him to one of his clerks for examination. The clerk returned them to him with his opinion and advice, which was certified, without further examination, to an auditor. The same papers were referred by the auditor to one of his clerks, who examined them, and reported to him; and, without further examination, he certified them to the second comptroller in like manner. The comptroller referred the papers to one of his clerks, who examined and reported thereon; and the decision then rendered by the comptroller himself was final. The number of claims was too great to be examined either by the heads of bureaus, auditors, or comptrollers: their duties, therefore, were confined chiefly to such points as were raised by the clerks when making their examinations. Not infrequently, however, claims were presented involving intricate questions of law and evidence. To examine these was more especially the work of the auditors and comptrollers. To decide them justly was often a difficult task. It will be seen, therefore, how important were the offices filled by the auditors and comptrollers; nor is there any reasonable ground for surprise, considering the mass of claims coming before them for adjustment, if mistakes should sometimes have been made.

Expenditures for the army and navy departments were the largest, and the most often misapplied. The utmost diligence and fidelity were required, on the part of the accounting officers who adjusted the accounts of these departments, to prevent wastefulness and fraud. One investigating committee of Congress reported that abuses of a very serious nature had been practised in allowing large sums of money to officers of the army, not only without law, but in direct violation of it. There had been a culpable disregard of law and duty, and inexcusable prodigality, in allowing many claims of persons connected with the military service. The allowing of double and sometimes triple pay, the extortions on the treasury under the pretext of contracts and services not authorized by law nor established by evidence, the gross and wholesale injustice to the Indian tribes, showed that there was no effective check in the war department to protect its interests, and maintain the justice and character of the government. It was believed, at the time of making their report, that the expense of the army and navy per man was about double the expense of those employed in a similar manner by European governments.<sup>1</sup>

It was clearly shown that the examination of claims was longer delayed and more loosely conducted, with respect to those which were thrice examined, than any others. The object of subjecting claims to so many examinations was to detect and prevent frauds; but those who studied the matter most carefully, questioned whether the mode of triple examination had fulfilled the expectation of its authors. Responsibility is rarely increased by

<sup>1</sup> See Report No. 756, 27 Cong., second session.

multiplying agents to do the same thing. Instead of acting as checks to prevent wrong doing, too often they promote negligence and fraud by distributing the responsibility for what is done. Subsequently the mode of examining accounts was changed: they were first examined by an auditor, and re-examined by a comptroller, thus omitting one examination. The change has been a real improvement in two ways,—by increasing the responsibility of those who adjust claims, and by expediting the business.

A very important investigating committee appointed in 1842, whose chairman was Mr. Gilmer, formerly governor of Virginia, and afterward secretary of the navy, recommended a reduction of the clerical force, and the abolition of several offices,—the board of navy commissioners, the commissary of purchases, the solicitor, and the recorder of the land-office. Congress heeded these recommendations. Moreover, the committee strenuously urged the retention of competent persons in office as an indispensable condition of their rendering the most effective service. The committee closed their very thoughtful report, which is well worth reading in our own time, with the following resolution on this subject:—

“That it is expedient to require the President of the United States, in all cases of removals from office, to communicate the reason or cause for each removal from office.”

With respect to prescribing how the departments should make contracts for the various things needed by the government, Congress enacted no other important measures, beside those already described,<sup>1</sup> until 1843. After that

<sup>1</sup> See Chaps. ii. and xii.

time all materials for the navy were to be furnished by contract, and the transporting of them was to be done in like manner. Congress enacted how the proposals should be made, and enjoined the navy department to accept the lowest offer. Every proposal was to be accompanied with a written guaranty, signed by a responsible person, that, if accepted, the proposal would be executed. If it were not, Congress enacted how the department should proceed against the bidder, and also in contracting with others.<sup>1</sup>

In 1844 the fiscal year began with the 1st of July, — a change which Woodbury recommended nearly ten years before. The need of making it was so obvious, that no report was made on the subject by any committee, nor was there any opposition to the change. The delay, therefore, in changing the date, is the more unaccountable. Five years afterward, the appointment of an assistant secretary of the treasury was authorized. His duties were to examine letters, contracts, and warrants, requiring the signature of the secretary of the treasury, besides such other duties as might be imposed on him by the secretary himself.

<sup>1</sup> Rev. Stat., Sects. 3718-3720, p. 739.



## CHAPTER XV.

## APPROPRIATIONS AND EXPENDITURES.

1840-1860.

IN the autumn of 1840 there was an overturning of political parties, and Gen. Harrison was elected President. Dying shortly after his inauguration, John Tyler succeeded him, whose administration was as novel as it was painful, especially to the party by whom he had been elected. In May, Thomas Ewing of Ohio, who had been appointed secretary of the treasury by President Harrison, made a report to the House, in which he discussed chiefly the keeping and disbursing of the public money, turning also a side-light, though not very strong one, upon the tariff.<sup>1</sup>

Ever since emptying its plethoric purse into the greedy State treasuries, the government had not received enough to pay its annual expenses. Every year it sank a little deeper into the mire of debt. A very uncomfortable feeling was kindled by the reflection, that, in a time of profound peace, the government could not pay its expenses year after year, save by borrowing. The treasury-note system worked so easily in getting the money needed

<sup>1</sup> The secretary's report was elaborately discussed in the Senate by Mr. Woodbury.

to pay the deficiency, that it was continued. At every session the old stereotyped Act was repeated, with but few changes of form, authorizing the secretary of the treasury to re-issue the treasury-notes that might be presented, and extending his authority to issue more if occasion required.

In 1841,<sup>1</sup> on Ewing's recommendation, Congress authorized him to fund the unpaid treasury-notes. The loan was to be paid the 1st of January, 1845. Subsequently, other treasury-notes, which could not easily be paid, were funded in the same manner. The loan authorized in 1843 was made payable ten years afterward, and bore five per cent interest.

When \$7,000,000 more of treasury-notes had been funded under the law of 1843,<sup>2</sup> others remained to the amount of \$4,656,387.45. They bore six per cent interest, which was a high rate for the government to pay at that time. The secretary of the treasury, John C. Spencer, regarded the duty "very obvious," of exercising the authority given to him by the Act of 1843 to issue other notes in such a manner as would promote the convenience of the treasury, and avoid the danger and expense of remitting coin to the public agents for disbursement, and yet save the largest amount of interest. Although the interest had ceased on more than two millions of these notes, in consequence of a notice given by the treasury of its readiness to redeem the whole amount, yet they were retained by the people for remittance from place to place.

<sup>1</sup> Act, July 21, 27 Cong., first session, chap. 3. The operation of this law was extended. Act, April 15, 1842, 27 Cong., second session, chap. 26.

<sup>2</sup> March 3, 27 Cong., third session, chap. 81.

This fact indicated to the secretary that when they were redeemed others could probably be issued, of a low denomination, without any or at a nominal interest, and that they would be received with avidity by the public creditors, if convertible into coin on demand. Thinking thus, what did he do? With the sanction of the President, he issued notes of the denomination of fifty dollars, with interest at the rate of one mill per annum on a hundred dollars. These notes were to be purchased at par whenever presented "at the depositories of the treasury in the city of New York;" and an indorsement to that effect was printed on the back of them. They were not only receivable for all public dues, but could be exchanged for specie at par in the custom-houses and land-offices to the amount of one-half the coin in their possession. An effort had been previously made by Woodbury to substitute notes bearing nominal rates of interest, and also notes bearing the rate of two per cent; but the experiment had failed because they were not convertible into coin on demand.

No apprehension was entertained of the ability of the treasury department to purchase all that might be presented for payment. "There was," Spencer declared, "and always must be, a surplus in the treasury beyond the immediate calls upon it. This, with a revenue more than three times the amount of the notes constantly accruing, would be adequate, as its place could always be supplied with other notes, with or without interest, as circumstances required, with which a portion of the public expenditures could be met. In the possible event of a large accumulation, treasury-notes bearing such interest

as would insure loans not exceeding the prescribed rate, or a resort to the authority to issue a stock, would either of them be sufficient to provide the necessary funds to meet such accumulation."

As a justification for this measure, the secretary declared that the exigencies of the treasury demanded that the effort should be made to relieve it from such a weight of interest, especially since it would not preclude a return to the system which invited banks to hoard treasury-notes by allowing them interest, while they borrowed of the community, without interest, to the extent of their circulation.<sup>1</sup>

Spencer discovered no constitutional objection to borrowing in this way; but Congress did, and the fires of controversy grew very warm. Indeed, all the constitutional arguments against making paper money a legal tender, which were put forth twenty years later, may be found in the reports and discussions occasioned by this action of the secretary of the treasury.<sup>2</sup>

<sup>1</sup> Annual Report, December, 1843.

<sup>2</sup> Report No. 379, 28 Cong., first session. This mode of issuing treasury-notes was a renewal of a feature of the Tyler Board of Exchequer, which Congress has so emphatically condemned. The seventh section of the bill to establish that board read as follows: "That the secretary of the treasury is hereby authorized and directed to cause to be prepared treasury-notes of denominations not less than five dollars nor exceeding a thousand dollars, which notes shall be signed by the treasurer of the United States, and countersigned by the president of the board of exchequer, and made payable to the order of the principal agent at each agency, and shall be by him indorsed when issued at such agency; and which notes shall be redeemable, and shall be redeemed in gold and silver, on demand, at the agency where issued. And treasury-notes intended to be issued by the board of exchequer at the seat of government shall be in like form," etc. "And all treasury-notes issued under the authority of the Act may, when redeemed, be issued by the board and its agencies respectively."



An effort was made to negotiate a loan for the amount needed to discharge the treasury-notes in Europe; but no foreigner could be induced to buy our government bonds at that time at par, even though bearing six per cent interest. William Cost Johnson, who acted for the treasury department in this transaction, remarked in his report, that "while nations with not a tithe of our resources, and with large public debts, have been able to effect loans at three per cent per annum, the agent of this government had to return from the same money-market where capital is seeking investment at two and three per cent without receiving a single offer for any portion of a loan to our government at six per cent."

Why did Congress suffer the public debt to increase? Why were not the expenditures reduced, if increased taxation were not practicable? Why should the six millions of indebtedness bequeathed by the former administration be allowed to expand beyond twenty-five millions in 1844? Retrenchment was the true remedy, yet Congress seemed reluctant to apply it. The salaries paid were fixed when the country was sailing on the flood-tide of prosperity, when money was plentiful and cheap, and the prices of every thing correspondingly high. But now the situation was reversed, yet Congress was very slow in discovering it. Not until 1844 did Congress awake to the necessity of reducing expenses in order to stop the growth of the debt.

Although another national debt was growing, a movement began in 1842 to increase it by assuming the debts of the States, which at that time amounted nearly to \$200,000,000, — a larger sum than either of the war debts

paid by the government. These debts were almost wholly the growth of the preceding fifteen years. At the close of 1825 the States owed only \$12,790,728; and during the next five years no more than \$13,679,689 additional stock had been issued. In the succeeding five years, however, \$40,012,769 were issued, and \$107,823,808 more in less than three years afterward. The debts of the several States now reached \$174,306,994. The money had been spent in aiding State banks, in building canals, railroads, turnpikes, macadamized roads, and other things.

The debts were mostly held abroad, and bore six per cent interest. The creditors were willing to reduce the rate one-half, if the government would assume the obligations. William Cost Johnson of Maryland was the champion, in the House, of national assumption, and was appointed chairman of a special committee to consider the subject. A large number of memorials were sent to Congress, in which a common opinion was expressed that industry had become unprofitable, wages had fallen, personal confidence was impaired, and business paralyzed. The States, too, though having the will to pay their annual obligations, it was declared, had not the means, that confidence would not be restored, nor industry thrive, nor the faith of many States be maintained, nor the government itself recover its former credit, until Congress, by decisive and enlightened legislation, rescued the people and the States from their embarrassed condition.

The committee reported in favor of assumption. At that time Illinois was a delinquent State; Missouri had passed a stay law, because her people were suffering from the embarrassments of the former State, Maryland was

remiss in her engagements; and South Carolina, though punctual in paying, was regarded with distrust, and her stocks sold below par. One of the strongest arguments in favor of assumption was, that the government assumed the debts of the States in 1790.

On the other hand, the unequal benefit of assumption to the States was a fatal objection to the measure. Many of the States owed nothing; others, only a small amount. The committee proposed to divide the \$200,000,000 of government bonds or stock on the basis of \$1,000,000 for each senator, \$651,982 for each representative, and the same amount for the District of Columbia. The basis was determined by the last apportionment law. Congress did not adopt the plan; and the nation escaped from the burden which the contractors of the debt, and the holders of it, were so anxious to put upon the national shoulders.<sup>1</sup>

Spencer was succeeded by George M. Bibb of Kentucky, the fourth and last secretary of the treasury during Tyler's troubled administration. Ewing resigned when Tyler began to manifest a disinclination to remain in harmony with the party that had elected him; and he was succeeded by Walter Forward of Pennsylvania, who had been appointed first comptroller by President Harrison. He remained in office long enough to report twice annually concerning the administration of the treasury department. The President next sent the name of Caleb Cushing into the Senate, but the nomination was rejected. The nomination was twice renewed, but the Senate resolutely declined to confirm him. John C. Spencer, the secretary of war, was then transferred to the treasury de-

<sup>1</sup> Report of Select Com., No. 296, 27 Cong., third session.



partment, and the Senate sanctioned the change. Scarcely had a year passed before Spencer resigned in consequence of receiving an order from the President to deposit one hundred thousand dollars of secret service money with a confidential agent in New York contrary to law.<sup>1</sup> With such swift changes, efficiency in conducting the affairs of the treasury was impossible. The wonder is, that the public business was not managed worse. While Bibb administered the finances, prosperity returned to the country, and a larger revenue flowed into the treasury. There was no longer a deficiency, but a surplus, which Bibb recommended should be kept for a sinking-fund to pay the debt which had been accumulating since 1837. No longer did the secretary of the treasury need recommend the tapping of new sources for taxation: the supply of revenue was bountiful, and the wheels of the government rolled easily along.

Yet there was a marked difference between his views, and those of the committee of ways and means, with respect to paying the public debt. Bibb favored a slower liquidation, and recommended the issue of new stock for a portion of it, payable in ten or fifteen years, and a

<sup>1</sup> The New-York Evening Post, in explaining this affair more fully, added, "In carrying out the preparations for the naval expedition against Mexico, it became necessary to procure the deposit of a hundred thousand dollars, by way of secret service money, with a confidential agent at New York. As there could be discovered no Act of Congress directing such a disposition of any part of the public money, Mr. Spencer, when requested by the President, declined giving the order, or to allow it to be given, to his subordinates. He next, it is said, received a peremptory order to transfer the money. Mr. Spencer, seeing the game was up, coolly wrote a second refusal, and with it sent in a note of resignation. He remained in the department just twenty-four hours afterwards."—66 NILES, p. 209.



reduction of taxes: on the other hand, the committee stoutly advocated a more rapid payment of the debt, and the maintenance of the revenue laws. Their views prevailed.

The wasteful and illegal expenditure of money, which had thrown such a painful glare over the two former administrations, had by no means ended. It had been lessened in many ways; but, when once these fires begin to burn, they are not easily extinguished. Said a committee on retrenchment in 1844,<sup>1</sup> "Thorough investigation has been so long delayed, that abuses have imperceptibly crept into nearly every department, 'regulations' have become laws, 'precedents' have constantly multiplied for extra allowances and other unwarrantable expenditures, office-hours have been shortened, and indolence become fashionable." In the army and navy especially, the officers were receiving a large compensation in return for a slight service, and many were retained who had no duty to perform. "A most reckless and profligate use" had been made of the contingent funds of the several departments, including that under the immediate control of the House. But Congress hesitated to begin the greatly needed work of reform. Indeed, it has always been difficult for that body to pare down expenditures, however glaring might be the necessity for such action.

When Woodbury retired from the treasury, the gov-

<sup>1</sup> Report No. 300, 28 Cong., first session. The committee at the same session recommended a reduction in the pay of the army (Report No. 353) and in the navy (No. 373). The commissary-general of subsistence recommended a change in the mode of making contracts which would save money to the government (Report No. 353, Appendix E).

ernment was in debt; though the amount was small, and would have been discharged during his last official year, had there not been very large expenditures for the Florida war, and for paying Indian claims. How the debt had risen by the end of the next four years will be seen in comparing the following figures:—

	Dec., 1839.	Dec., 1844.
Old funded debt . . . . .	\$299,554 95	\$156,174 51
Old unfunded debt . . . . .	26,622 44	22,003 56
Treasury-notes of 1812 . . . . .	5,295 00	4,317 44
Mississippi stock . . . . .	4,320 09	4,320 09
Debts assumed of District of Columbia .	1,500,000 00	1,260,000 00
Outstanding treasury-notes . . . . .	4,433,823 00	1,912,713 17
Loan of 1841 . . . . .		5,143,026 88
Loan of 1842 . . . . .		8,343,886 03
Loan of 1843 . . . . .		7,004,231 35
	<hr/>	<hr/>
	\$4,771,115 48	\$23,850,673 17

The secretary had redeemed, it is true, since July, \$322,584.61 of treasury-notes, and \$539,950 of the stock issued in 1841; but the debt which remained was an indelible mark of the misgovernment of the period. There were some slight attempts to economize during Tyler's administration; but extravagant and corrupt modes of expenditure had become so perfectly organized, that reform was slow and difficult.<sup>1</sup> It must be added, too, that

<sup>1</sup> A committee that investigated the expenditures of Lieut. McLaughlin, commander of the Florida squadron, whose corrupt course toward the government was very clearly proved, said, in closing their report, "Congress and the people may now understand, in part, why it is that the expense of supporting our navy is so much greater than that of any other nation. The committee have no reason to suppose or believe, that, in the disbursements of the naval appropriation, cases of abuse and squandering

the cry of retrenchment was neither strong nor effective. The spirit of reform that existed in Congress was faint and fitful, and spent itself chiefly in lamentation. Nothing could have been clearer than the duty of Congress to bring the expenditures within the receipts, yet not until 1846 were the estimates for expenditures very much reduced. A new tariff was enacted in 1841, which was expected to yield a larger revenue to the government; but for two years afterward importations were light. The country had suffered reverses, and had not recovered from liquidating the heavy balance due abroad,—the accumulation of several years of buying in excess of the products sent thither. While the income was reduced, especially in a time of peace, the expenditures ought to have been pared down in almost every direction. Congress should have diminished the appropriations, and the executive departments should have been more faithful and efficient in making contracts and in settling accounts. Had these things been done, there would have been no debt in 1844.

Woodbury, it is true, pleaded for a reduction of the appropriations; but he did not point out where to make them. He might have shown this so clearly that Congress would not have dared continue in the old ways. His successors flitted through the treasury department so swiftly, that they scarcely had time to ascertain where the

of the public money frequently occur to the extent of the one in question; but they are convinced that needless expenditure and extravagance, to a great extent, exist throughout the whole service, owing, as the committee believe, to the present loose and faulty system of accountability. This leak upon the treasury, which it has become the duty of the committee to expose, is but one among many which remain to be found out and stopped." — *Report No. 582, 28 Cong., first session.*



growth of expenditure had been exuberant, and might be wisely lopped off. It was easier to recommend an increase of revenue. Ewing, thinking that Congress might not be willing to revise the tariff until it had had "its final and permanent operation," recommended, as a temporary measure, levying a duty of twenty per cent *ad valorem* on all articles which at that time paid no duty, or one less than twenty per cent, and some other modifications of the existing tariff, with the view of enriching the revenues of the government; and this recommendation received the sanction of Congress. Forward favored a re-adjustment of the tariff, and higher rates. Spencer recommended retrenchment, especially in collecting the revenues, and in some of the permanent and indefinite appropriations; but he uttered only a feeble note. As a relief measure, he urged more cogently the taxing of tea and coffee.<sup>1</sup>

His estimate of expenditures was very sharply criticised by the Committee of Ways and Means. He thought the deficiency would be about four millions and a half at the end of June, 1845; but in making his calculations he added the outstanding appropriations of the previous year, and omitted to deduct the outstanding appropriations of the current year. The committee regarding the unex-

<sup>1</sup> Annual Treasury Report, December, 1843. Ingersoll, in his Minority Report on the Tariff (April 4, 1844, No. 306, 28 Cong., first session), said, "During the year 1843 upwards of twenty-two thousand pounds of coffee were imported into the district of Baltimore alone. If it had paid a moderate duty of two cents a pound, it would have yielded more than two-thirds of all the revenue received at that custom-house. Experience has shown that a duty upon coffee is attended with little or no increase of price to the consumer; and the impression was general, that, if required by the treasury, it would be just and popular."



pended balance of appropriations of each year as not varying "very materially from one year to another," they set aside, from the appropriations for the fiscal year 1844-45, \$2,500,000 for these unexpended balances, and by so doing cut down the deficiency to \$2,000,000. The committee agreed with the secretary in regarding "the insufficiency of the current revenues to meet the current expenditures to be not merely present, but future also." What the committee proposed was a reduction of expenditure equal to the probable deficiency in the revenue. Reductions covering this amount had been recommended by Spencer. Though adopted by the Committee of Ways and Means, they did not expect to secure a reduction of the appropriations to the standard of the accruing revenue. The committee remarked, that, at each session of Congress for the last seven years, appropriations had been made which were much larger than the current revenues. "During the early portion of this period there were means in the treasury independent of the current revenue, being a surplus of former years, to meet these excesses of appropriations; and when those means were exhausted, temporary loans in the form of treasury-notes were resorted to, to supply the deficiencies. In this way a debt in the shape of treasury-notes outstanding, to an amount not probably varying very materially from six millions, had been contracted at the time when the present administration came into power (on the 4th of March, 1841); and that debt, thus commenced, has since that time, and up to the first day of December last, been swelled to the startling amount of more than twenty-five millions, more than twenty-one millions of which have

been made to assume the permanent form of loans for a term of years, and the residue yet retains the form of treasury-notes outstanding. Deficiencies in the current and accruing revenue, to meet the annual appropriations, have accumulated this amount of debt in this short period, and more than nineteen millions of it within three years.”<sup>1</sup>

When Bibb made his report, at the close of 1844, the country had recovered from its depression, profits were greater, the bank circulation had expanded, importations had increased, and the revenues were augmented sufficiently to pay the current expenditures and leave a surplus.

Walker, who succeeded Bibb, proposed to swell the national income still more by revising the tariff in such a

<sup>1</sup> This amount did not include the balance of the old funded or unfunded debt, or the debts assumed for the cities in the District of Columbia, nor the indebtedness to the Indian tribes, nor various trust-funds. — *Report*, March 11, 1844, No. 306, 28 Cong., first session.

There were always appropriations made for one year, which were not expended, or only in part, until the next. These balances varied in round numbers from \$6,000,000 to \$18,000,000, and the appropriations from 1829 to 1840 increased beyond the expenditures to the amount of \$17,442,125.18. Portions were carried to the surplus fund; yet an unexpended balance of former appropriations, amounting to \$10,412,003.20, remained Jan. 1, 1843. The committee of ways and means, in their report on the state of the finances in February, 1843, remarked concerning this practice, “It has thrown a vast responsibility upon the Executive, and vested him with a dangerous power over the treasury of the nation. To illustrate this, let us suppose that the appropriations for 1842 were \$20,000,000, and that the President should see fit to expend only one-half during that year, and permit the remaining \$10,000,000 to lie over for expenditure in 1843: then if the appropriations for 1843 should be \$20,000,000, the President would have it in his power to expend \$30,000,000 in 1843, and thereby exhaust the treasury.” — No. 227, 27 Cong., third session.

way as to obtain the largest revenue possible from importations. Congress adopted his views, and the tariff was revised accordingly. But again the alarm of war was sounded, and more money than was received through the ordinary channels was needed.

The President was authorized to issue, within a year, ten million dollars of treasury-notes, or to issue stock for that amount redeemable within twenty years. Only six per cent was to be allowed in either case; nor was any commission to be given for negotiating the loan.<sup>1</sup>

Although Congress authorized this loan in July, within six months more money was required to maintain the war against Mexico. In January,<sup>2</sup> therefore, a loan of twenty-three million dollars was authorized; but several new conditions were attached to it which require notice. The President could issue the whole amount in the form of treasury-notes of as small denominations as fifty dollars; and they were redeemable within one or two years after date, the interest to be determined by the secretary, with the approval of the President, though not exceeding six per cent, which was to cease after a notice of sixty days that the government was ready to redeem them. They were to be given to those creditors who were willing to receive them; and on their credit the secretary was authorized "to borrow from time to time such sums as the President may think expedient." The law, however, contained a proviso that they could not be pledged or sold for less than their face value, "including the principal and interest thereon." They were transferable by deliv-

<sup>1</sup> Act, July 22, 1846, 29 Cong., first session, chap. 64.

<sup>2</sup> Act, Jan. 28, 1847, 29 Cong., second session, chap. 5.



ery and assignment, and receivable for all public dues; and the secretary was authorized to buy them at par, allowing also for the amount of interest due at the time of purchase. The holders, too, of all outstanding treasury-notes, were allowed to exchange them for six-per-cent funded stock, and to receive the interest due thereon at the time of the exchange in money, the government reserving the right to redeem them at any time after Jan. 1, 1848. The authority granted to the secretary the previous year, to issue ten million dollars of treasury-notes, was limited to issuing one-half that amount; and the President was granted discretionary power to issue stock for the entire loan of twenty-three million dollars, instead of treasury-notes redeemable after the 1st of January, 1848. The secretary of the treasury was also required to publish monthly a statement of all the treasury-notes issued or redeemed.

In February the secretary advertised for proposals for eighteen million dollars of these notes. He stated in his notice that all bids must be unconditional, and without any reference to the bids of others, or they might not be considered. None would be received below par. The department reserved the right to fix the periods when the money must be paid, "so as not to be required to anticipate the wants of the government, or allow any interest" before receiving the money. The amount of the bids was \$57,722,983, nearly all of which were above par, varying from one-eighth of one per cent to two per cent. The remainder of the loan was exchanged at par, partly for money to be deposited without charge at New Orleans, where the wants of the government were great, and the



rest chiefly to the Smithsonian Institution. On the 22d of October, 1846, the department had advertised for the exchange at par of three million dollars of treasury-notes bearing five and two-fifths per cent interest for deposits of specie with the assistant treasurers. For several months the exchange was made slowly; and when, in February, the eighteen-million loan was advertised, "serious doubts were entertained" whether it would be taken at par. It was the first loan ever negotiated in specie since the founding of the government, and the first, save that of the previous autumn, which had ever been negotiated at or above par during a period of war. "The magnitude of the loan," declared the secretary, "the fluctuations below par of the previous stock and notes, the untried, and, to many, alarming restraining operation of the constitutional treasury, the heavy expenditures of the war, and the requirement of all the payments from time to time in specie, were deemed by many as insuperable obstacles to the negotiation of the whole of the loan at or above par. But, under the salutary provisions of the constitutional treasury, the credit of the government was in truth enhanced by receiving and disbursing nothing but coin; thus placing all its transactions upon a basis more sound, and entitled to higher credit, than when it held no specie, had no money in its own possession, and none even in the banks, to pay its creditors, but bank paper. Then it was dependent upon the credit of the banks, and was subjected to every fluctuation which affected their credit: now it stands upon the basis of specie, so as to be above all suspicion of discredit; whilst, by its demand for coin for revenue payments, it sustains not only its own credit,

but renders more safe the credit and currency and business of the whole Union.”<sup>1</sup>

The next year another loan of sixteen million dollars was authorized, bearing six per cent interest, payable quarterly or semi-annually, and reimbursable after twenty years.<sup>2</sup> Proposals were to be invited, the surplus revenues were pledged for paying the loan, and the secretary was authorized “to purchase, at any time before the period . . . limited for the redemption of the stock, . . . such portion thereof at the market price, not below par, as the funds of the government” might admit “after meeting all the demands of the treasury.”<sup>3</sup> This was the final loan for paying the cost of waging the Mexican war.

The loan was duly advertised just as the war closed; and the premium obtained was \$487,168.66, “which was the more extraordinary,” said Walker, “inasmuch as the entire sale of the sixteen millions of stock in a single day exceeded the rate at which the government six-per-cent twenty-years’ stock, exclusive of interest and brokerage, was then selling in small sums in the market.”<sup>4</sup>

The secretary of the treasury had no right to purchase above par the twenty-eight millions of treasury-notes and stock authorized by Congress in 1847. When the bill was pending, Walker recommended that authority should be delegated to the treasury to purchase any portion of it at the market rate, whatever that might be. His reason was, that such authority would make the debt more

<sup>1</sup> Annual Report, December, 1847.      <sup>2</sup> From July 1, 1848.

<sup>3</sup> Act, March 31, 1848, 30 Cong., first session, chap. 26.

<sup>4</sup> Annual Report, December, 1848.

valuable to the purchaser when sold by the treasury; and therefore would increase the premium. It was obvious, the secretary declared, that, if the government had the means to purchase the debt before maturity, it should be done, rather than to pay the interest; and it was also clear, that by increasing the amount which the government could purchase, "especially to the great extent of twenty-eight million dollars," the treasury could purchase on better terms. He therefore recommended that authority be given to purchase the debt at the market rate.<sup>1</sup> This legislation was the more needful, because the income derived from the sales of lands had been set apart for discharging this debt; yet, if it could not be thus employed before the debt matured, it must remain in the treasury. Congress granted the authority, and subsequently, purchases were made at varying rates, though some of them were very high.<sup>2</sup>

The excess of army and navy expenditures occasioned by the Mexican war was \$63,605,621.31; the increase of debt, by the issue of stock and treasury-notes, was \$49,000,000: consequently the difference, \$14,605,621.31, was paid from the revenue, including the premium, obtained from loans, of \$563,061.39. A still larger portion of the expenditure would have been paid from the revenue, had Congress imposed a duty on tea and coffee, which Walker recommended. His recommendation, though repeated several times, made no effective impression on Congress.<sup>3</sup>

<sup>1</sup> Annual Report, December, 1848.

<sup>2</sup> Act, March 3, 1849, 30 Cong., second session, chap. 100.

<sup>3</sup> See Annual Treasury Report, December, 1850.



The debt began to shrink after the close of the war; yet Meredith, Walker's successor, appointed by President Taylor, declared there would be a deficit in 1850 and 1851, arising from the payment of money to Mexico under the treaty.<sup>1</sup> He not only recommended the issue of more stock or treasury-notes, but also an increase of the duties. Congress authorized the issue of \$10,000,000 of stock to Texas,<sup>2</sup> in execution of an agreement when that State was admitted into the Union, but declined to change the tariff. Meredith was appointed from Pennsylvania, and his report was mainly an elaborate argument for restoring a protective system of duties.

Although the debt was increased by the issue of stock to Texas, and the payment of the Mexican indemnity, a portion of the debt was paid every year. The government could not get hold of it without paying a heavy price. The premiums paid on \$2,523,200 of certificates of stock, purchased at market rates in 1851 and 1852, amounted to \$325,655.24, — more than one-eighth of the entire debt purchased. "These rates, if applied to the whole debt as it stood on the 20th of November last," said the secretary in his annual report in December, 1851, "would require for its liquidation, in addition to that amount, about the sum of eight million dollars."

The secretary inquired whether sound policy did not demand the giving to the department some discretion to

<sup>1</sup> The United States had agreed, in the treaty with Mexico, to pay \$15,000,000 to her, beside \$3,500,000 of claims of American citizens against the Mexican Government. The payments to Mexico were to be made at various times, extending over several years.

<sup>2</sup> Only \$5,000,000 were issued. See Corwin's Annual Treasury Report, Jan. 15, 1853.



purchase with the available surplus revenue sound State stocks, when this could be done at or near their par value, and to hold them for a sinking-fund, which might be applied toward redeeming the public debt when it became due. Of course, the object of establishing such a policy was to pay the debt without paying a premium. The secretary regarded "such a course desirable," but Congress thought otherwise.

The history of the treasury department's investment of trust-funds in 1836 was undoubtedly fresh in the minds of some members. Congress authorized the investment of the Smithsonian fund in State stocks, and the secretary of the treasury, soon after receiving the gift, exchanged it for bonds issued by the State of Arkansas. The money was received by Ambrose Sevier, a senator from that State. For several years the interest was paid in similar bonds. The remainder of the fund was invested in bonds issued by the State of Michigan.<sup>1</sup> In 1841 Congress directed that the interest, and "all other funds held in trust by the United States, when not otherwise required by treaty," should be invested in the stocks of the government.<sup>2</sup> The State of Arkansas, after a few years, stopped paying interest on its bonds; and Congress, in 1845, resolved that the percentage of sales of public lands within the State to which it was entitled should be applied toward paying the interest and principal of its bonds held by the government.<sup>3</sup> Recalling this

<sup>1</sup> The amount invested in Arkansas bonds was five hundred thousand dollars, and, in Michigan bonds, nine thousand dollars.

<sup>2</sup> Act, Sept. 11, 27 Cong., first session, chap. 25.

<sup>3</sup> Res. No. 14, March 3, 28 Cong., second session. See Speech of John Quincy Adams to his Constituents, Oct. 30, 1844, 67 Niles, p. 154.

history of investing money by the treasury department, Congress wisely declined to authorize the secretary of the treasury to make other investments.<sup>1</sup>

The mode adopted by the treasury for buying stock is worthy of notice. At one time money was advanced to brokers to pay for the stock purchased by them. Guthrie,<sup>2</sup> thinking that this mode might "lead to a misapplication of the public funds, and to favoritism," discontinued it. The stock issued in 1843 was due ten years afterward; and in March, 1853, the secretary of the treasury gave notice that he would pay the principal at any time the owners might desire, including, also, the interest due at the time of requesting payment. He also offered to redeem portions of the stock issued in 1842, 1846, and 1847; paying par, and a premium of twenty-one per cent, on the latter stock, eight and one-half per cent premium

<sup>1</sup> Corwin again remarked on this subject, in his annual report sent to the House in January, 1853, "The department possesses no authority to purchase, at a rate above par value, any portion of the six-per-cent loan of 1847, and which is only redeemable in 1867, except to the extent of what balance may remain in the treasury from the receipts from the sale of public lands after the interest on that loan has first been paid from such receipts. As the amount of that stock forms so large a portion of the public debt, it would be desirable that Congress should remove that restriction by authorizing its purchase at the current market-value. By thus giving a more extended scope to the application of any surplus funds in the treasury for the purchase of the public debt, it would probably enable the department to procure it on more favorable terms."

<sup>2</sup> James Guthrie, who was appointed secretary of the treasury by President Pierce, administered the finances in a highly creditable manner. He evinced a marked aptitude for finance, and was thoroughly devoted to the interests of the government. President Pierce first tendered the office to Reuel Williams of Maine, who had served in the National Senate, and whose fitness for the office was unquestionable.

on the stock of 1846, and sixteen per cent on the stock issued in 1842.<sup>1</sup>

Guthrie adopted this mode of discharging the debt, not only to prevent the possible loss of money, but to retard accumulations in the treasury. The increase of receipts over expenditures occasioned at times alarm in commercial and financial circles. The secretary hoped that "the accumulations in the treasury would exercise a beneficial restraint upon importations and speculative credit enterprises, and bring the business of the country into a safe and wholesome condition; yet, under the apprehension that a panic might arise from a too stringent operation of the treasury," he advanced money to the mint to buy gold and silver for coinage, beside resorting to the expedients already mentioned for increasing the outflow from the treasury.

His offers to purchase the public debt were issued in March, July, and August, 1853, at the market price; and he succeeded in getting a large amount of it, and aiding those who wished to sell their stocks and borrow money. The balance of the loan to the cities lying within the District of Columbia was paid the same year, and also a part of the Texan bonds. "The fact is established," the secretary says in his annual report at the close of 1853, "that the public debt of each description can be obtained at the premiums offered and paid, and the premiums made be reduced as the time fixed by the terms of the law for redemption approaches."

At the beginning of Pierce's administration, in March, 1853, the debt was \$69,129,937.27, and was subsequently

<sup>1</sup> See Annual Treasury Report, December, 1853, Appendices D, E, F.



increased \$2,750,000 to liquidate the debt of Texas. By the middle of November, 1856, the figures had melted away to \$30,963,909.64. Of the sum paid, \$40,916,027.63 represented the principal, and the balance (\$4,609,882.31) the premium on portions redeemed before maturity. A saving of \$14,606,441.39 was effected on the debt thus paid in advance.

Beside this debt, a considerable sum was due to the Indian tribes, growing out of the extinction of their title to the public land. In 1856 this sum amounted to \$21,066,501.36, and was payable at different times. Estimates were furnished for making payments, when they matured, by the interior department. The government at that period had also invested in stocks, for several of the tribes, \$3,511,624.08.

The reduction of the debt was so rapid, that the next year the government parted with a portion of its revenue. Scarcely had this been done, when the land was smitten with another financial panic. The national income speedily diminished, and in December an issue of twenty million dollars of treasury-notes became necessary.<sup>1</sup> The next June a loan of twenty million dollars of stock was authorized to meet current obligations.<sup>2</sup> The secretary of the treasury, Howell Cobb, recommended raising the duties; but Congress did nothing. There was no wise pruning of expenditures; and the treasury drifted, borne up by the belief, that, when the financial crash was over, importations would increase, and the revenues be ample to discharge, in due time, all forms of public indebtedness. The treasury-notes which were issued in 1857, payable

<sup>1</sup> Act, Dec. 23, 1857, 35 Cong., first session, chap. 1.

<sup>2</sup> Chap. 165.



in a year, could not be paid when they matured, and so they were renewed until June, 1860;<sup>1</sup> then Congress passed a law to fund them. The stock was not to exceed twenty-one million dollars in amount, nor bear more than six per cent interest. It was not to be paid for ten years, and within twenty. In September, proposals were invited for a loan of ten million dollars, a sum large enough to meet all the treasury-notes that would fall due before the 1st of January, 1861. Five per cent interest was offered, the secretary believing that the loan could be readily negotiated at that rate. At that time the five-per-cent stock of the United States was selling in the market at a premium of three per cent. The whole amount was taken at par or a small premium; but, before payment was made, another destructive wave rolled over the land, and many of the bidders were unable to respond. Some did so at a considerable sacrifice, and others were nursed by extending the time of payment. The entire amount thus borrowed was seven million and twenty-two thousand dollars.

When Congress met in December, eleven million dollars of the stock authorized to pay the treasury-notes had not been issued. The secretary declared that "the difficulties attending the payment of the stock already sold, in connection with the fact that capitalists, in the present condition of the country, were unwilling to invest in United-States stock at par, render it almost certain that this remaining eleven millions cannot now be negotiated upon terms acceptable to the government. The condition of the treasury is such that no serious delay can be in-

<sup>1</sup> 36 Cong., first session, chap. 180.

dulged." He recommended a repeal of the law enacted the previous year, so far as it authorized the issue of eleven million dollars more stock, and that authority be given for issuing an equal amount of treasury-notes at such rates as would command the confidence of the country. To create that confidence, he recommended that the public lands be unconditionally pledged for the ultimate redemption of all the treasury-notes that might be issued. "I make this recommendation," he adds, "of substituting treasury-notes for stock, the more readily, from the conviction that there should always exist, in the department, power to issue treasury-notes for a limited amount, under the direction of the President, to meet unforeseen contingencies. It is a power which can never be abused; as the amount realized from such source can only be used to meet lawful demands upon the treasury. No secretary of the treasury, or President, would ever exercise it, except compelled to do so by the exigencies of the public service: on the other hand, it would enable the government to meet, without embarrassment, those sudden revulsions to which the country is always liable, and which cannot always be anticipated." Congress authorized the issue of ten million dollars of treasury-notes in lieu of eleven million dollars of stock, redeemable at the end of one year from date, and bearing six per cent interest until called for redemption. The secretary, however, was authorized to issue them, after advertisement, at such rates of interest as might be offered by the lowest responsible bidders.<sup>1</sup> Notes were soon afterward issued, under this Act, for the following amounts, at the rates specified: —

<sup>1</sup> Act, Dec. 17, 1860, 36 Cong., second session, chap. 1.

	Per cent.		Per cent.
\$70,200 . . . . .	6	\$1,027,500 . . . . .	10
5,000 . . . . .	7	266,000 . . . . .	10 $\frac{1}{4}$
24,500 . . . . .	8	623,000 . . . . .	10 $\frac{1}{2}$
33,000 . . . . .	8 $\frac{1}{4}$	1,367,000 . . . . .	10 $\frac{3}{4}$
10,000 . . . . .	8 $\frac{3}{4}$	1,432,700 . . . . .	11
65,000 . . . . .	9	4,840,000 . . . . .	12
10,000 . . . . .	9 $\frac{1}{4}$		
160,000 . . . . .	9 $\frac{1}{2}$	\$10,010,900	
77,000 . . . . .	9 $\frac{3}{4}$		

The public debt on the 1st of July, 1860, exceeded sixty-four millions; and this large increase had been caused, not by any extraordinary outlay, but solely by reducing the revenues to a foolishly low point. It is true, when the tariff of 1857 was amended, a financial crisis was not expected; but, even if it had not come, the prosperity of no business was hazarded by letting the tariff remain. By lowering the rates, and sinking the receipts below the expenditures, and doing nothing to extricate the government from that situation for three years, its credit was seriously shaken. For such financial mismanagement no possible excuse could be given.

The political horizon darkened near the close of 1860. Cobb, the secretary of the treasury, resigned a few days after making his annual report, and Philip F. Thomas of Maryland was appointed his successor; but he remained at the head of the treasury department only a month, and then John A. Dix succeeded, who served during the remainder of President Buchanan's term. It was while Gen. Dix administered the finances, therefore, that the treasury-notes above mentioned were sold. So low had the credit of the government fallen, he recommended



to the Committee of Ways and Means that the States be asked to secure the repayment of money which the government should borrow by pledging the public deposits received by them in 1836. He thought that a loan resting on such a basis might receive the favorable attention of capitalists.<sup>1</sup>

On the 1st of February the committee reported a bill authorizing a loan of \$25,000,000. The secretary of the treasury had previously declared that there would be a probable deficit in the revenue of \$21,677,524. The deficiency bill contained appropriations amounting nearly to \$3,000,000: thus there was an estimated deficiency of \$24,000,000; while the amount in the treasury on the 1st of January was only \$2,233,220. Imports had very much declined in consequence of political complications.

The bill was opposed on the ground that the secretary still possessed the power, under the Act of June, 1860, to borrow fourteen million dollars, and that this amount, at least, should be deducted from the proposed loan; but the answer given was, that the balance of the June loan could not be sold at the terms prescribed in the law, and, if it could be, that the money must be employed to redeem the treasury-notes of 1860. The bill passed; and the President was authorized to borrow, at any time before the 1st of July, twenty-five million dollars to pay current demands on the treasury, or to redeem treasury-notes. The stock was to bear not more than six per cent interest, and was to be reimbursable after ten and before twenty years. Under this authority, bonds were issued to the amount of

<sup>1</sup> Letter to Com. of Ways and Means, Jan. 18, 1861, No. 20, Mis. Doc., 36 Cong., second session.



\$18,415,000, "at an aggregate discount of \$2,019,776.10, or an average rate of \$89.03 per one hundred dollars."<sup>1</sup>

Only one other financial measure passed, in the last hours of President Buchanan's administration, requiring notice. Ever since the panic of 1857 the public debt had been increasing; and the secretary of the treasury remarked in his report presented in December, 1859, that the idea of increasing the public debt to meet the ordinary expenses of the government should not be entertained for a moment. Nevertheless, this idea had been entertained since July, 1857, as the following figures clearly show:—

Balance in treasury, July 1, 1857 . . .	\$17,710,114 27
Public debt, July 1, 1857 . . . . .	29,060,386 90
Public debt, July 1, 1858 . . . . .	44,910,777 66
Public debt, July 1, 1859 . . . . .	58,754,699 33
Public debt, July 1, 1860 . . . . .	64,769,703 08
Balance in treasury, July 1, 1860 . . .	3,629,206 71
Debt, less balance in treasury, July 1, 1857 .	11,350,272 63
Debt, less balance in treasury, July 1, 1860 .	61,140,496 37

A bill to repay outstanding treasury-notes, to authorize a loan, and to regulate and fix the duties on imports, was introduced into the House, March 12, 1860. One object of this bill was to increase the revenues. It was warmly debated at that session, but did not pass both Houses. At the next meeting of Congress the bill was further considered; and, after many of the Southern members had left that body, it was passed, becoming a law on the 2d of March, 1861. The contest over it had centred mainly on the provisions which related to an increase of the tariff.

<sup>1</sup> Act, Feb. 8, 1861, 36 Cong., second session, chap. 29.

By this law the President was authorized to borrow, within one year from its enactment, not more than ten million dollars, which were to be applied in discharging appropriations and treasury-notes then outstanding. No contract could be made, preventing the government from reimbursing the amount borrowed, at any time after ten years from the first day of July next ensuing. If the proposals made for the loan were not satisfactory, the President was authorized to issue treasury-notes, instead of borrowing money, for the full amount of the loan authorized, and also to substitute treasury-notes for the whole or any part of the money which he was authorized to borrow by previous Acts. Notes issued under this law were to be redeemed within two years from its date. How the law was executed will be stated hereafter.

Such is the miserable ending of the chapter on finances while they were managed by the South under the *quasi* administration of James Buchanan. During the few months that Gen. Dix managed them, he displayed wisdom and vigor; but the evils previously wrought through a long course of mal-administration could not be easily nor quickly cured.

During the seventy years covered by this volume, the income and expenditure of the government had greatly expanded. The appropriation laws multiplied in number, and increased in amount. For the year ending the 31st of June, 1860, \$58,331,650.38 were appropriated, mainly by the following entitled laws: military academy; Indian department; consular and diplomatic expenses; naval service; legislative, executive, and judicial; sundry civil expenses; army; pensions; and lighthouses and buoys.

For the public debt there was an appropriation of \$2,379,841.78, and \$15,228,483.93 for treasury-notes. The appropriations for that year were thus classified by the treasury department: <sup>1</sup>—

Civil list . . .	\$6,032,070 81	Internal improve-	
Miscellaneous . .	21,697,188 71	ments . . . .	\$478,912 41
Foreign inter-		Naval establish-	
course . . . .	1,115,025 46	ment . . . .	9,616,088 48
Pensions . . . .	991,784 02	Marine corps . .	663,394 55
Indian depart-		Smithsonian Insti-	
ment . . . .	2,698,387 91	tution . . . .	12,687 70
Chickasaw fund .	71,690 10		<hr/>
Military establish-			\$58,331,650 38
ment . . . .	14,174,420 23	Public debt . .	2,379,841 78
Surveys . . . .	135,000 00	Treasury-notes .	15,228,483 93
Fortifications . .	645,000 00		<hr/>
			\$75,939,976 09

The appropriation laws were framed with more care than in the beginning, yet were very defective. Congress has never shown that regard for economy in appropriating public money which enstamps the highest order of legislation. Sometimes expenditures have been authorized by the law which appropriated money to pay for them. Sometimes other matters of legislation have been crowded into appropriation laws. The power of transferring appropriations from one branch of the navy department to another branch of it, by order of the President, existed for many years.

The Committee of Ways and Means in 1842, when investigating the subject of civil and diplomatic appropriations, declared that many appropriations had been made for a

<sup>1</sup> Ex. Doc., Receipts and Expenditures, No. 12, 36 Cong., second session.



long time without authority of law. It was then enacted that the heads of departments, in communicating estimates of expenditures to Congress, should specify the sources from which such estimates were derived, and the calculations on which they were founded, and should discriminate between conjectural estimates and those framed on actual information. They were also required to refer to the laws or treaties authorizing the proposed expenditures. Subsequently, the secretary of the treasury was required to prepare the estimates of appropriations early enough for the clerk of the House to distribute them at the opening of every session. Congress afterward enacted that all estimates for the compensation of officers should be founded on specific laws, and not on "the authority of executive distribution." Laws were made for the guidance of the heads of departments with respect to appropriations for the erection of public buildings, or the construction of other public works. They were also required to designate in their estimates of expenditures for the approaching year, beside the amount needed therefor, the amount of the outstanding appropriation which would probably be required for each particular item of expenditure. In 1860 Congress prescribed a very complete plan for the naval department to follow in giving estimates for expenditures. At a later date, laws were enacted relating to the estimates of other departments.

Beside the usual appropriations made every year for maintaining the government, there were other appropriations for the payment of claims, whose validity was determined by Congress. They were infected with some irregularity, which prevented claimants from obtaining



a settlement through the departments. Some of these claims were fraudulent: on the other hand, many of them were obviously just, yet could not be paid under the laws and regulations established for the guidance of the departments. In these cases, therefore, the claimant could appeal only to Congress for relief.

Accordingly, in 1794, a committee of claims were appointed, to whom these matters were referred, and who investigated them, and reported thereon to Congress. The committee had jurisdiction of all claims against the United States in which money was demanded, or a release from paying it to the government was desired, or in which the claims had reference to public lands, or pertained to a pension.

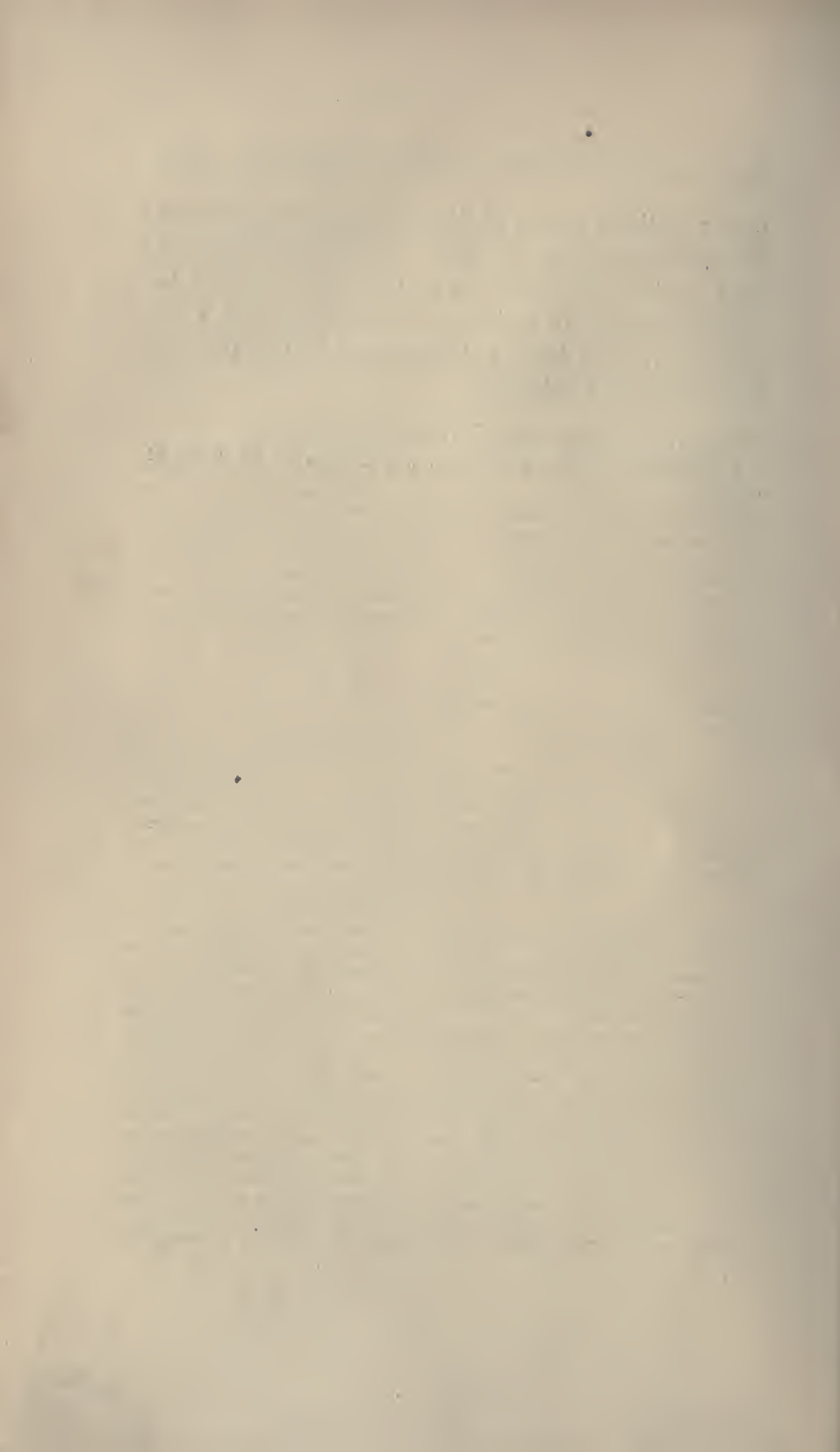
The business of the committee grew so heavy, that a division of it became necessary. Consequently, in 1805, Congress created the committee on public lands; eight years later, that on pensions and Revolutionary claims; in 1816, the committee on private land claims; in 1825, that on Revolutionary pensions; and six years afterwards, another on invalid pensions.

Notwithstanding this division of the business, many claims were not considered each session, because there was not time. In the earlier years of the government, a strict adherence to statutes of limitations, requiring the presentation of claims within a short period, debarred many claimants. Not only was much time consumed by such investigations, but these were often imperfect; and the unfitness of a committee of Congress to serve as a tribunal to hear and adjust these matters was apparent long before any remedy was applied. Finally, in 1855, Con-

gress established a court of claims, to which claims against the government were referred.<sup>1</sup> Though performing a good service, the jurisdiction of this tribunal should be enlarged, statutes of limitation need reviving, and, when claims have been heard and determined, further proceedings should be forbidden.<sup>2</sup>

<sup>1</sup> Report, April 26, 1848, No. 498, 30 Cong., first session.

<sup>2</sup> Richardson's History, Jurisdiction and Practice of the Court of Claims.



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